Austria Sch.20	Indonesia Rp 2500	Philippines Pes. 20
Bahrain Din 0.650	Israel IS 3.50	Portugal Esc 100
Belgium BFr 45	Italy L 1500	S. Arabia Rls 6.00
Canada C$1.00	Japan Y650	Singapore S$ 4.10
Cyprus C£0.70	Jordan Fils 500	Spain Pta 125
Denmark DKr 8.00	Kuwait Fils 500	Sri Lanka Rup 30
Egypt E£1.00	Lebanon £1.25.00	Sweden Skr 7.00
Finland Fmk 6.50	Luxembourg LFr45	Switzerland SFr2.20
France Fr. 8.50	Malaysia Rm 4.25	Taiwan NT $65
Germany DM 2.20	Mexico Pes. 300	Tunisia Din 1.375
Greece Dr 80	Morocco Dh 6.00	Turkey L 350
Hong Kong HK$ 12	Netherlands Fl 2.75	U.A.E. Dh 6.50
India Rup. 15	Norway Nkr. 7.00	U.S.A. $1.00

FINANCIAL TIMES

EUROPE'S BUSINESS NEWSPAPER

No. 30,026 — Monday September 8 1986 — D 8523 B

The unwinnable, unlosable Gulf war, Page 16

World news | Business summary

Israeli Cabinet split over massacre

Israel's coalition Government was plunged into a fresh crisis yesterday as its leaders vowed revenge for the terrorist attack on an Istanbul synagogue in which 23 Jewish worshippers were killed.

Mr Ariel Sharon, the Industry and Trade Minister, accused the Prime Minister, Mr Shimon Peres, of indirect responsibility for the outrage, saying his foreign policy had lowered Israel's guard against terrorism.

In response, Mr Peres demanded a public retraction from Mr Sharon in writing, and when he failed to get it, he angrily suspended yesterday's weekly Cabinet session indefinitely. **Istanbul launches hunt, Page 2**

Terror suspect held

French security forces arrested Giovanni Stephan, believed to be a leading member of the Italian Prima Linea extreme left terrorist movement, as he was crossing the Spanish border into France.

S. Africa suicide

Nyanisile Moko, a black ambulance driver, hanged himself after South African police detained all eight of his children under the country's state of emergency.

UN security effort

A top United Nations official arrived in Beirut to discuss urgent measures to improve security for UN peacekeeping troops in south Lebanon after the death of three French soldiers in a roadside bombing on Thursday.

Egypt-Israel talks

Egyptian and Israeli negotiators held private talks yesterday to discuss their border dispute as the US tried to steer its two main Middle Eastern allies towards a *summit* this week.

US Mafia trial

Eight reputed members of a Mafia commission alleged to have directed organised crime in the US go on trial in New York today facing charges ranging from drug smuggling to murder.

Summit peace call

The Non-Aligned Movement summit ended in Harare with an impassioned appeal to the US and the Soviet Union to halt the arms race. Page 2

Delhi curfew

Indian police imposed a curfew on parts of Delhi's old walled city after stone-throwing crowds of Moslems set Hindu-owned shops on fire.

Fire aboard ferry

Fire broke out aboard a Polish car ferry crossing from Poland to Sweden, and 23 passengers and crew were taken off the ship by another Polish ferry.

Gulf naval battle

Iranian naval units damaged three Iraqi warships in a battle in the northern Gulf, and more Iranian volunteers left for the war front as Iran continued its build-up for a promised offensive.

N-plant accident

A minor accident occurred during the refuelling of a Soviet-built Finnish nuclear plant when a small amount of radioactive cooling water leaked on to the floor of the reactor last week, officials at the plant said.

Arms talks boosted

Moscow's acceptance of allowing neutral countries to play a role in monitoring compliance of arms control treaties cleared one of the main obstacles to agreement at the European Disarmament Conference in Stockholm.

Piquet wins in Italy

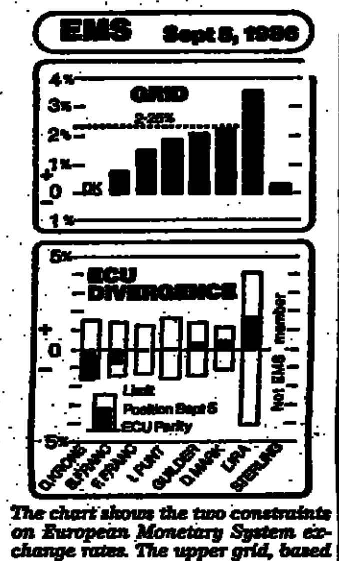
Brazilian Nelson Piquet won the Italian grand prix motor race ahead of second-placed Williams team mate Nigel Mansell of Britain who remains leader of the world championship table.

Ricoh set to build plant in Europe

RICOH, Japanese photocopier maker, is expected to decide before the end of the year to build a manufacturing plant in mainland Europe. The expected move, prompted by the strength of the yen, is likely to be accelerated by the recent imposition by the European Commission of anti-dumping duties on Japanese photocopiers.

EEC and US have settled differences over EEC exports of semi-finished steel products and imports of US citrus imports. *Page 4*

EUROPEAN Monetary System: The Danish krone fell to its lowest permitted level against the D-Mark late last week and was also down to its divergence limit in Ecu terms. However, there were no obvious signs that the Danish central bank had intervened to support its currency, amid hopes that this Thursday's meeting of the West German Bundesbank central council may sanction a cut in the discount rate. With the US dollar remaining weak, the D-Mark was very firm against its EMS partners and maintained its position towards the top of the system behind the wider ranging Italian lira. Page 34



The chart shows the two constraints on European Monetary System exchange rates. The upper grid, based on the weakest currency in the system, defines the cross rates from which no currency (except the lira) may move more than 2¼ per cent. The lower chart gives each currency's divergence from its "central rate" against the European Currency Unit (ECU), itself a basket of European currencies.

TOKYO: Nikkei index eased by 11.27 in the Saturday half-session to 18,763.81. **Leading prices, Page 31**

OIL CONSUMPTION in Western industrialised countries is likely to rise by between 3.5 and 4.5 per cent in the last quarter of 1986 against last-quarter 1985, says the International Energy Agency. Page 4. Soviet Oil Minister Vasily Dinkov says his country's production has started to rise after a long decline.

RAND MERCHANT BANK, the privately owned South African banking company, has announced strong profits for the year ended June 1986. Page 29

SAATCHI AND SAATCHI, the leading UK advertising group, is expected to announce plans to merge its Italian subsidiary, Compton Saatchi and Saatchi, with Milan-based MYL. Page 24

HEINEKEN, the Dutch beer brewer, posted flat earnings and only slightly higher revenues in the first half due to steep restructuring costs and relatively sluggish sales. Page 19

SAUDI-DUTCH BANK, Albank Alsaudi Alhollandi, has issued an unaudited report saying that profits for the first six months of 1986 were 56 per cent lower than the first six months of 1985. Page 28

CITY DEVELOPMENTS, the Singapore property group, reported that after-tax profits fell by 4.7 per cent to S$8.6m ($4.5m) in the first half of 1986 from a year earlier.

IKB, the West German bank, looks set for another buoyant result this year after registering a further big surge in demand for credit from its corporate customers in the five months ended August.

Tutu enthroned as S. African archbishop with pomp and passion

AS THE Most Reverend Desmond Mpilo Tutu struck three times with his silver crook on the great west door of St George's Anglican cathedral in Cape Town to be ushered in as the first black spiritual leader of the majority of Anglicans in southern Africa, a scuffle broke out among the crowd, **writes Anthony Robinson in Cape Town.**

A white woman in black mourning dress laid a wreath of white and purple flowers against the cathedral steps in the name of an organisation called United Christian Action, and zealots from the Gospel Defence League distributed anti-Tutu tracts.

It was a small demonstration of the passions raised within and without the church by the diminutive 55-year-old cleric from the township of Munsieville near Johannesburg who helped finance his early studies by cheating at cards on crowded suburban trains. He was inspired to take the cloth by the anti-apartheid white clergyman, Father Trevor Huddleston, and his impish wit, religious conviction and mastery of the media has made him a world-wide symbol of the struggle against apartheid.

In its way, the enthronement of Archbishop Tutu is as historic an event as the election of Cardinal Wojtyla, a Pole, as Pope John Paul of the Roman Catholic Church. Those Anglicans who view his election with dismay and foreboding say it is not because he is black, but because he is too political. His advocacy of economic sanctions is regarded as treasonable by the Afrikaner Government and the fruit of folly and ignorance by the largely English-speaking business community who help bankroll the church.

Even among blacks Archbishop Tutu is a far more controversial figure than the simple image often portrayed overseas of universal spokesman for the black majority.

The church, which to many whites represented a link with England, is now led by a black African, albeit a man equally at home in the dusty townships, where few whites venture, and the smart political salons of half the world.

Archbishop Tutu's 10 predecessors may have been white, but the church now in his pastoral care has long been overwhelmingly black. The congregation at his enthronement was joyously mixed, but the Group Areas Act ensures that on most Sundays the congregations in white areas are overwhelmingly white while packed township churches swing to the rhythm of Africa.

The enthronement ceremony itself was a triumphant amalgam of ancient ritual, surpliced choirs and the rich-toned chanting of a black church choir from Soweto. The splendour of Bach, Elgar and Handel mixed with the full-throated joyousness from smiling black African faces.

The sermon, or "enthronement charge" was vintage Tutu, quoting the God of Exodus, the God who saw the misery of his people in Egypt, heard their outcry against the slavemasters and who came down "to rescue them from the power of Egypt and bring them up out of that country into a fine, broad land."

For Egypt read South Africa – and that is what the Archbishop did in a sermon calling on whites to practise the Christian love preached in the Gospels. He chided those obsessed by "meticulous concern for the minutiae of ritual and sacrifice" and drew on last week's violence and death in Soweto and the fate of those "uprooted and dumped as rubbish in re-settlement camps" to illustrate the need for whites to accept blacks as brothers. It was pure "liberation theology."

Ironically his dramatic, and personally risky intervention to save the life of an alleged black informer from death by a flaming rubber-tyre necklace in Duduza township last year, raised his standing in the white community and among many blacks. But it did not please the young township radicals involved in a bitter and bloody battle with the "system."

The new archbishop's jet-setting image, and the star-studded international guestlist for his enthronement, also evokes mixed feelings – and the crowd of uninvited guests outside the cathedral yesterday of, at most, 300 people was surprisingly small.

When all the necessary caveats have been made, however, Archbishop Tutu is also a man who inspires love, devotion and admiration from millions at home and overseas for whom he is a powerful symbol of reconciliation. In his sermon at the mass Eucharist held in Goodwood stadium, close to the teeming black and coloured townships and squatter camps such as Crossroads on the periphery, Dr Robert Runcie, Archbishop of Canterbury, described Archbishop Tutu as "a man of love, vision and peace."

He told the multi-denominational congregation: "An old order is dying... Those who hold power must be ready to renounce it for the sake of Christ... Those who seek power must be ready, even after all they have suffered to make room for the claims of the people they've seen as oppressors."

In a gesture sure to scandalise church-conservatives every bit as much as Archbishop Tutu, Dr Runcie quoted jailed ANC leader Mr Nelson Mandela. He told the congregation: "Christ is the inspiration of those of all races who have fought, in the words of Nelson Mandela, against white domination and against black domination and who have cherished the ideal of a democratic and free society, a happy place for all peoples."

Both Mr Mandela and Mr Oliver Tambo, the ANC leader in exile, are devout Anglicans, and Mrs Winnie Mandela was prominent among the

Continued on Page 18

South African debt talks, Page 2

Doubts on summit as Moscow charges US reporter with spying

BY PATRICK COCKBURN IN MOSCOW AND STEWART FLEMING IN WASHINGTON

THE SOVIET UNION yesterday formally charged Mr Nicholas Daniloff, the US reporter, with espionage in a move which is bound to sour US-Soviet relations and reduce the chances of a superpower summit this year.

Mr Daniloff telephoned from prison in Moscow yesterday to say he had been formally charged with spying. He added that investigation by the KGB security police into his case might go on for nine months.

Mr Daniloff, Moscow correspondent of the magazine US News and World Report was arrested on August 30 after he had received an envelope from a friend which the KGB claimed contained secret documents. Mr Daniloff says he was framed.

The Soviet decision to charge Mr Daniloff came only hours after the publication of reports that President Ronald Reagan had sent a personal message to Soviet leader Mr Mikhail Gorbachev assuring him that Mr Daniloff was not a spy.

The Soviet decision thus appears to represent a direct rebuff to Mr Reagan, one which can only escalate the tensions surrounding the Daniloff case and cast a lengthening shadow over the sensitive negotiations which have been under way between Moscow and Washington, particularly on arms control, aimed at laying the foundations for a Reagan-Gorbachev summit.

There were also tentative signs over the weekend that those talks were not progressing well. At the end of two days of negotiations at the State Department in Washington between delegations headed by the top US and Soviet arms control officials, Mr Paul Nitze and Mr Viktor Karpov, Mr Karpov shouted to reporters as he left the building: "No progress has been made."

It is now accepted on both sides that, without the prospect of substantive progress on arms control, a summit meeting would serve no purpose.

In the week since Mr Daniloff was arrested US officials, while seeking ways to defuse the Daniloff case and arguing that it should not be allowed to threaten progress towards a summit, have also been warning that failure to release Mr Daniloff quickly could have serious repercussions on US-Soviet relations.

It is argued that it would be difficult for US Secretary of State Mr George Shultz and Soviet Foreign Minister Mr Eduard Shevardnadze to make progress on preparations for a summit at their scheduled meeting in Washington on September 19 and 20 if Mr Daniloff was still in jail.

There have also been signs that the arrest of Mr Daniloff has strengthened the hand of those in the Reagan Administration who are sceptical about the arms talks.

While US Secretary of State Mr George Shultz has been insisting that the arrest of the journalist on what the US regards as trumped-up charges is an outrage, he has also been seeking a way to resolve the problem.

The State Department is seen to have been instrumental in drawing up the proposal that, if Mr Daniloff were returned to the US immediately, the US would release Mr Gennadi Zakharov, a suspected Russian spy being held in New York, to the custody of the Soviet ambassador in Washington, Mr Yuri Dubinin.

During the weekend, however, US Defence Secretary, Mr Caspar Weinberger, a leading hawk in the Administration, said Mr Daniloff's arrest had endangered arms control talks and argued in favour of postponing the negotiations until he is freed.

A State Department spokesman said yesterday that, while the US had no immediate comment, a statement on Mr Daniloff might be forthcoming later in the day.

European ministers unite on terrorism

By Robert Mauthner in London

FOREIGN ministers from the 12 European Community countries yesterday strongly confirmed their commitment to back the fight against terrorism in the light of the latest hijacking of a US airliner at Karachi airport, which they condemned as "an outrage."

Though Sir Geoffrey Howe, the British Foreign Secretary, who chaired the two-day meeting at Brocket Hall, near London, gave no indication of any new measures that the Community might take, he said the Karachi incident had reinforced the need for international co-operation in the face of terrorism.

Success in the fight against terrorism required "constant vigilance and application" and a regular and complete exchange of information on terrorist activities. However, apart from the need to show more zeal, the Foreign Secretary offered no easy solutions.

Sir Geoffrey will be reporting on the foreign ministers' discussions to Mr George Shultz, the US Secretary of State, and other members of the American Administration during his two-day visit to Washington starting tomorrow.

On behalf of his own Government, Sir Geoffrey will inform his hosts that Britain is prepared to adopt appropriate additional measures.

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Shortfall threatens EEC farm spending plans, Page 3

Defiant Zia says hijackers to face death penalty

BY JOHN ELLIOTT IN KARACHI

PRESIDENT Zia ul-Haq last night firmly rebutted criticism of his country's handling of the Pan American airliner hijacking at Karachi last Saturday and said that the four hijackers would face trial in Pakistan, where such a crime carries the death penalty.

"I hope they will receive the punishment that such a crime deserves," he said. The four would not be extradited to the US, but a US Federal Bureau of Investigation team, which had arrived to investigate, would be given "whatever they need."

The US, which praised the actions of the Pakistani Government in the immediate wake of the hijack's bloody ending on Friday night, however gave no further indication yesterday of its own likely response to the latest hijacking.

While the whereabouts of the US aircraft carrier, Forrestal, which left Naples on Friday during the hijacking remained a mystery yesterday, most US attention appeared focused on establishing the identity of the hijackers.

In West Germany US Federal Bureau of Investigation (FBI) agents questioned American survivors as they arrived on board a special Pan Am flight due to continue last night to New York.

The death toll caused when the hijackers opened fire in the aircraft with its 389 passengers and airline staff has now risen to 18, and more than 100 people were injured, including about 90 with bullet wounds.

But the Government has said that, contrary to earlier announcements, none of the hijackers died and they are all now in custody. One was seriously injured.

The Pan Am jet is still standing on the runway with about 12 bullet holes, caused by shots from inside the aircraft, on each side of the fuselage. The cockpit windscreen has two bullet holes, possibly caused by commando snipers, and there could also be more bullet holes fired from outside the aircraft which are not so clearly visible.

The inside of the aircraft has, it is believed, badly damaged and blood-spotted seats, carpets and wall linings. Outside on the ground on Saturday afternoon there were more than 12 pairs of glasses, shoes, clothes and magazines scattered where they had been dropped at the bottom of two inflated rubber escape chutes by passengers fleeing the aircraft in the dark. A child's shoe was balanced on the rear flap of one of the wings.

President Zia was speaking when he returned from the non-aligned summit in Harare at a time when sharp differences of opinion are building up over the handling of the crisis. They centre on the short period on Friday night when the

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Pakistan's commando raid plans, Page 2

Semiconductor pact with Japan backfired, say US chip buyers

BY LOUISE KEHOE IN SAN FRANCISCO

THE US-Japanese semiconductor trade agreement designed to protect US chip makers from alleged Japanese "unfair trade practices" has backfired, the major buyers of chips in the US electronics and computer industries claim.

Angered by a dramatic rise in US prices for Japanese-made memory chips in the wake of the agreement, US buyers are warning that there will be unforeseen, severely negative consequences for the US electronics industry as a result of the pact.

The American Electronics Association, representing US computer and electronics companies, has scheduled urgent meetings tomorrow with Mr Clayton Yeutter, the US Trade representative, and Mr Malcolm Baldrige, the Commerce Department Secretary, to voice concern about the effects of the trade pact on US chip buyers.

"We will express our concern that we be included in the consultative aspects of the implementation of the agreement," Mr Ralph Thomson, senior vice president of the AEA, said.

The Washington meetings follow sessions in California and on the east coast at which chief executives of many US electronics companies expressed their frustrations at the sudden 100 per cent to 600 per cent rise in memory chip prices over the past month.

At the California meeting last week, several companies claimed that they would be driven out of business by the price rises. Others said that they were looking into the possibility of off-shore production to avoid the effects of the trade pact.

The chip buyers complain that "fair market values," minimum export prices, assigned to Japanese chip makers by the US Commerce Department under the terms of the trade agreement with the goal of preventing future Japanese "dumping" have in fact raised prices beyond reasonable levels.

The complaints of the US chip buyers will strike a responsive chord with Japanese chip makers, who have bitterly condemned the pricing levels set by the US Commerce Department as unreasonably high.

"What we are looking for are lower 'fair market values'," Mr Thomson acknowledged. The dramatic increase in prices for dynamic random access memories (Drams) and electrically programmable read only memories (Eproms) has gone far beyond the anticipated "neutralising" effect of dumping margins, he charged.

US government officials say the current confusion over memory chip prices is a short-term problem that will be solved when new "fair market values" are calculated in mid-October.

"We hope that as the Commerce Department gathers more detailed and complete information about Japanese chip production costs that the 'fair market values' will come down," Hewlett-Packard, the computer manufacturer, said.

In the meantime, Japanese chip makers "will gain a windfall profit of at least a billion dollars, giving them extra funds for research and development to move ahead of US competitors," Mr Bill Krause, chief executive of 3COM, a Silicon Valley computer maker, said.

The trade agreement will also create long-term fundamental problems for the US electronics industry, executives fear. While chip prices have risen in the US, "prices haven't changed in the Pacific rim, so a lot of companies are starting to do assembly work offshore to get the benefit of lower memory chip prices," Mr Krause said.

Gatt warning, Page 18

CONTENTS

OVERSEAS NEWS

Pakistan had planned raid on aircraft

BY JOHN ELLIOTT IN KARACHI

PAKISTANI security forces were preparing to mount a commando raid, with US backing, after midnight on Saturday night against the Pan American jumbo jet which had been hijacked on the tarmac at Karachi Airport with 389 passengers and staff aboard some 18 hours earlier.

But the army and police were not sufficiently alert to be ready to cope with the earlier emergency which came before midnight. As a result it took 15 to 20 minutes to reach the aircraft after the hijackers opened fire on passengers killing about 18 people and injuring more than 100.

This summary of the events of Saturday night emerged from conversations with officials in Karachi over the weekend as Pakistan came under criticism for its handling of the crisis and different sections of the country's police and security forces vied with each other for favourable newspaper publicity before President Zia ul-Haq returned last night from the non-aligned summit in Harare.

Fortunately, all the passengers and airline staff who had not been killed in the sudden burst of gunfire and grenade explosions around 10 pm, had escaped from the aircraft by the time the police arrived—followed later by the country's crack commando corps. So in petrospect security chiefs could claim that the outcome was not as disastrous as it might have been if there had been a full frontal commando assault with the risk of higher casualties caught in cross-fire.

The passenger probably most relieved, and in some ways surprised, to survive, was Mr Michael Thexton, a 29-year-old schoolteacher from London. He had been picked as the highjacker's second assassination victim early in the day.

"The stewardesses threw all the US passports away and then was the first British passport holder they came to," he said yesterday. His brother died on a glacier accident in northern Pakistan three years ago. "I thought I was about to join him."

Pakistan decided during Saturday that the aircraft would eventually have to be raided, although it is believed that some security chiefs hoped an earlier event might trigger an emergency which would end the highjack—though they did not prepare properly for that eventuality.

"At some point during the day the Government decided not to let the plane go and came to the US and asked if we would back them if such action led to violence," said a US official. The answer "Yes" came quickly from the "highest authority" in the US.

Three main reasons lay behind the decision not to let the aircraft go:

● One man had been killed in the morning so the highjackers could not be relied on.

● The highjackers were heavily armed with grenades, expolsives and guns which would endanger the airport during the proposed flight to Cyprus, even if the hijackers had first unloaded all passengers.

● Cyprus and other countries had refused to accept the aircraft. When pressed Cyprus had said "no, no, hell no," reported the US official.

Earlier in the day Pakistan had seemed keen to wash its hands of the affair. But then a choice was made between the risk of losing lives on the ground, or everyone and the aircraft in the air.

Rehearsing an assault with mock raids on a Pakistan International Airways jumbo started in mid-afternoon on a remote side of Karachi Airport. Put around the aircraft there were only sharpshooters who, it is though, may have managed to kill or injure one highjacker through the cockpit window. The army commandos were not given te advance order to move into readiness for an instant alert.

Tis left the tarmac virtually empty when the passengers were shot, the Air Vice Marshall Mr Kurshid Anwar Mirza, Director General of the Civil Aviation Authority who described what he saw about 10 pm as he walked across the tarmac with a Pan Am official after radio contact had been lost and the aircarft lights had gone off:

"We saw a stream of people coming out of the plane, and one of the first said: 'They are shooting everyone indiscriminately.'

"We rushed to the nearest (security) post and through the megaphone we said "where are our people (the commandos). They must come out.' Apparently no-one was there in the vicinity at the time. I learned later that they were some way away."

It was after "ten to 15 minutes" that he saw "the first cordons of people moving round the aircraft."

In another answer to reporters he said: 'We said the commandos must come forward now as per the plan. But as we learned subsequently the commandos were not right there. They were further away at that time because they were not just sitting there all the time."

There also were no steps for the police or army to mount to the aircraft, partly because of fear of gunfire: "The ladder was brought in 20 to 25 minutes later because, you see, there was firing going on from the aeroplane," said the Air Vice Marshall. Because of this, commandos eventually mounted inflated escape chutes. But, despite training, they apparently failed quickly to open an access door under the aircraft.

It then appears that after the initial killings, the hijackers stopped shooting, either because they had no nearby ammunition or because they knew they had nothing to gain. They tried to escape with the passengers. Two were arrested later, one masquerading as a passenger in the terminal and one by a gate.

Last night key questions remained unanswered: whether the US pushed Pakistan into switching from its soft approach to a hard line, whether the aircraft lights were intentionally turned off, and why authorities failed to mount effective co-ordination and leadership.

Synagogue killings spark massive hunt

By David Barchard in Ankara

TURKEY'S SECURITY forces yesterday mounted one of the most intensive searches ever seen in this country for the organisation behind the killing of 23 worshippers at an Istanbul synagogue on Saturday morning.

Security measures were also stepped up around all non-moslem places of worship.

The two gunmen, who posed as photographers to gain entrance to the synagogue before attacking the worshippers inside with automatic weapons and hand grenades, themselves died on the spot, so there is little evidence for the police to go on.

Inevitably it is being recalled that in the last major Arab terrorist incident in Turkey, the killing of the first secretary at the Jordanian embassy in Ankara last year, the assailant was never caught.

The Turkish press with few exceptions has echoed the outrage and fury at the attack voiced by Turkey's leaders,

There was some speculation in the press that the raid might have been carried out in Istanbul either to discredit Turkey or because of the slight rapprochment in Turkish-Israeli relations in recent months.

Mediator absent from SA review

BY PETER MONTAGNON IN LONDON

A REVIEW of South Africa's economy under the terms of the debt restructuring deal reached with creditor banks in March is going ahead without the involvement of Dr Fritz Leutwiler, the Swiss mediator between Pretoria and its bankers.

Dr Leutwiler, formerly President of the Swiss National Bank and now chairman of the Swiss engineering group Brown Boveri, had at one stage been expected to chair the review. But it is being carried out instead by a technical committee of 12 leading creditor banks formed in March to implement the debt agreement.

Dr Leutwiler's lack of involvement in the review has helped to confirm expectations that he would quietly bow out of the South African debt negotiations following the furore unleashed by a resignation statement put out by a spokesman in Switzerland last July which was later rescinded.

A team of economists from the technical committee is due to return from South Africa this morning where it has been preparing a report on the economic situation to be discussed later this month at a full committee meeting in London.

The original purpose of the exercise had been to determine whether South Africa's balance of payments would permit it to step up repayments to creditor banks, limited to $500m under the scope of the agreement.

However, bankers on the committee said at the weekend that given the payments outturn so far and the increasing probability of economic sanctions being applied by the West, there seems little likelihood of South Africa being able to increase its debt repayments this year.

Late last month Dr Chris Stals, South Africa's Director General of Finance, said South Africa would not seek to extend its payments freeze to previously excluded forms of debt. But, in a remark that dashed hopes of additional money being available to repay bank loans, he added that the assumption that the March agreement would leave little room to add to the country's reserves "now proves to have been realistic and correct."

The technical committee comprises: Barclays, National Westminster, Standard Chartered, Credit Suisse, Union Bank of Switzerland, Swiss Bank Corporation, Commerzbank, Deutsche Bank, Dresdner Bank, Citibank, Manufacturers Hanover and Morgan Guaranty.

Profits up at Rand Merchant Bank, Page 29

Internal strife harms Third World forum

BY VICTOR MALLET IN HARARE

IT WAS NOT a particularly happy 25th birthday for the Non-Aligned Movement (NAM). Third World leaders representing more than half the world's population, but only a fraction of its military and economic resources, ended their week-long stay in Zimbabwe yesterday after a summit overshadowed by internal strife and by uncertainty about the role of the 101-member grouping in tackling the superpowers.

Libyan leader Colonel Muammar Gadaffi stole the show when he called NAM an international farce in a world which had to be divided into the two camps of liberation and imperialism. Egypt promptly said that he was mentally unbalanced.

Iran called for the expulsion of Iraq from NAM and said Iraqi leaders should be executed. India sharply criticised Pakistan and Sri Lanka, and accused Pakistani security forces of bungling their attempts to rescue hostages on the hijacked US jet in Karachi.

NAM, comprising 99 countries and two guerrilla groups, the Palestine Liberation Organisation and the South West Africa People's Organisation, proved itself an unwieldy body. Speaker after speaker at the Harare conference centre called for action rather than words, but the outcome of the summit was inevitably more verbal than concrete.

Last week's summit, held in Harare to focus attention on the crisis in southern Africa, called for mandatory and comprehensive economic sanctions against South Africa. The meeting agreed to set up a fund to help the black frontline states likely to be severely affected by sanctions and by possible South African retaliation against the dependent economies of the region.

A delegation of foreign ministers will be sent to four of South Africa's major trading partners – Britain, the US, West Germany and Japan – to press for sanctions.

Disarmament was another major issue, and the conference drafted a letter to be sent to President Ronald Reagan and Soviet leader Mr Mikhail Gorbachev, urging them to reduce international tensions and end the arms race. "Never before has humanity been so near to self-destruction," the letter said.

The West came under fire for the imbalances in the world economy and its approach to the Third World's enormous debt. Non-aligned leaders described the debt burden as intolerable but rejected calls by some members for mass defaults on their obligations. The final economic declaration, however, added: "The heads of state or government reaffirmed that... unless urgent, just and durable solutions were found by the international community, for some of them those obligations would become beyond the capacities of their economies."

The declaration called for measures to ease the debt burden, including the limiting of debt service payments to a suitable proportion of export earnings, a course already taken by Peru.

The former Tanzanian President, Mr Julius Nyerere, has meanwhile been appointed as head of a commission to promote co-operation between developing countries.

The NAM, formally set up in Yugoslavia in 1961, remains uncertain of its identity. The US and others accuse the organisation of pro-Soviet bias and certainly the rhetoric was largely anti-American, with conservative members often keeping a low profile. But the Zimbabwean Prime Minister, Mr Robert Mugabe, the new chairman of the movement, and his predecessor, the Indian Prime Minister, Mr Rajiv Gandhi, both say it is impossible to create an artificial balance or to voice one criticism of the Soviet Union for each attack on the US.

Shortfall in revenue threatens planned EEC farm spending

BY QUENTIN PEEL IN BRUSSELS

A GAPING new hole has opened up in the over-stretched EEC budget for the current year, likely to require further painful economies in farm spending and restart old battles between the 12 member states.

Less than two months after cobbling together a balanced Ecu 35bn (£24.15bn) budget for 1986, the 12 budget ministers will be told today that their revenues are likely to fall short of the required amount by Ecu 778m.

The belated calculation by the European Commission is likely to exacerbate what already promised to be an agonising negotiating session to share out the available cash for 1987.

The main cause of the 1986 shortfall is the drop in customs and excise revenues which the member states automatically contribute to the Community budget.

The drop in the dollar is one factor—dollar-denominated import prices are lower—and the fall in oil prices is another. The early introduction of tariff cuts under the Tokyo round of the General Agreement on Tariffs and Trade (Gatt) has also contributed.

The actual calculation is that such revenues will fall by more than Ecu 1.1bn, counterbalanced by an increase in contributions by member states from value added tax of more than Ecu 300m.

The Commission is proposing to meet the shortfall with what officials admit is "creative accountancy": assuming in advance that VAT payments will be even better than estimated, and hoping for further savings on the farm budget, such as new sales of butter, to come to the rescue.

Today's meeting of Budget Ministers was supposed to concentrate on the 1987 budget, on which they were deadlocked at the end of July. There will be little inclination to reopen the old agonies over 1986.

The deadlock on 1987 spending—proposed by the Commission to rise by 4.37 per cent to Ecu 36.7bn—involves "blocking minorities" of member states at each end of the spectrum.

The "budget disciplinarians" like West Germany, the Netherlands and the UK want to keep the increase in spending on items like regional and social policy and industrial research to barely 4 per cent. That would allow the European Parliament to add the same amount again and keep the final growth rate to a "maximum rate" of 8.1 per cent.

The countries most likely to benefit from such spending — like Italy, Spain, Ireland and Greece — want to take up the full "maximum rate," which would allow the Parliament to push the final growth up to more than 12 per cent on non-agricultural matters.

That deadlock is unresolved, and is only likely to be complicated by the new hole in 1986. Officials forecast negotiations which could well last through one night, if not two.

Martens hints at tax cuts if finance package applied

MR WILFRIED MARTENS, the Belgian Prime Minister, held out the prospect of tax cuts if his centre-right coalition succeeded in implementing fully a controversial savings package adopted last month, Reuter reports from Brussels.

He told state television it may be possible to reduce the tax burden in 1988 or 1989 if the BFr 195bn (£3.1bn) package was fully applied and a whole range of tax concessions to special interest groups were stopped.

His statement came as unions, which have organised protests since the measures were outlined last spring, considered a response to the package agreed by ministers in August.

Whether Mr Martens' four-party coalition will face a "hot autumn" of unrest depends largely on whether the key Christian union confederation, linked to the Social Christian parties in the government, decides to oppose the package and organise joint action with Socialist unions.

The Government says the savings, which will hit social security, education and public services, are essential to put debt-laden Belgium's finances on a sounder footing.

Mr Martens made his remarks on tax in response to a television viewer's complaint that Belgium's current tax system hit married couples harder than people who simply live together.

Tax row poses threat to Oslo Government

By Fay Gjester in Oslo

A ROW about a long-promised reform of Norway's income tax system could give the country its second change of government in less than a year.

Opinion polls show the ruling Labour Party steadily losing support, as the economic situation deteriorates in the wake of falling oil and gas prices. This had encouraged the three parties of the former Conservative-led coalition to bury their differences on the subject.

Normally, the Conservatives' two junior partners—Christian Democrats and Centre Party—take a middle of the road line on tax issues, sometimes leaning closer to Labour than to the Conservatives. Now, however, all three former partners have declared that they will not accept a draft scheme put forward last week by Mrs Gro Harlem Brundtland's minority Labour Government, which took power only last May.

The Government must thus choose between amending its proposals, to make them acceptable to at least some of the opposition parties, or tabling the reform as it stands and facing virtually certain defeat when the Storting (parliament) reassembles next month.

Labour's scheme aims at shifting more of the tax burden onto the country's wealthier citizens. If Mrs Brundtland and her ministers consent to water it down too much, they will face the wrath of their own supporters in the party and trade union movement.

Many of the latter feel, anyway, that Labour was unwise to accept power when it did—at a time when the economic crisis made unpopular measures inevitable. They would not be sorry to see the coalition back in office—in time to take the blame for the rising inflation and growing unemployment, which everyone expects.

Mr Rolf Presthus, Finance Minister in the former coalition, and the Conservative Party's candidate for Prime Minister, sees the tax issue as the quickest and surest way of ousting Labour. In a speech on Saturday he said Norwegians were "worried and disturbed" because they knew that "when the Labour Party is in power, the tax burden grows heavier."

On the same day, one opinion poll showed the Conservative Party level with Labour for the first time ever—with 35.5 per cent of voter support. But another poll — also published on Saturday—gave the Conservatives only 32.3 per cent, compared with 39.2 per cent for Labour.

A change of government in October would enable the coalition to modify the budget for 1987, widely expected to propose higher taxes, and heavier public spending, than the Conservatives can accept.

Thatcher faces acid rain talks

By Lucy Kellaway

"ACID RAIN" will be one of the subjects discussed when Mrs Margaret Thatcher visits Oslo later this week for talks with Mrs Gro Harlem Brundtland, the Norwegian Prime Minister.

The topic has been a long-standing source of disagreement between the two countries. Norway and other Scandinavian countries claim that "acid rain" pollution from British coal-fired power stations is damaging their forests lakes and rivers, and want filtering equipment to be installed in all station chimneys.

Britain has argued until now that there is insufficient scientific evidence linking its power stations to acid rain to merit such an investment, which would cost about £2.5bn.

Direct rule from Delhi

The north Indian state of Jammu and Kashmir was brought under direct rule from New Delhi for the first time yesterday after six months' rule by the state governor imposed because of a political crisis. Reuter reports from New Delhi.

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Reagan faces Congress showdown

BY STEWART FLEMING, US EDITOR IN WASHINGTON

PRESIDENT Ronald Reagan, who is scheduled to return to Washington today from a three-week vacation in California, is facing a showdown with Congress on US policy to South Africa and congressional challenges to his trade and budget priorities.

Both the Senate and the House of Representatives will also reconvene today for a month-long session which both the Republican and Democratic Parties see as an opportunity to focus public attention on those issues which will help their parties in the crucial mid-term elections in early November when Republican control of the Senate will hang in the balance.

President Reagan, concerned that if his party were to lose control of the Senate his political influence would be severely weakened, is planning to campaign actively on behalf of hard-pressed Republican candidates across the country.

His aides are already appealing to voters to support Mr Reagan in what they describe as his last campaign, one which they argue will help determine how much of his legacy remains when he retires at the end of his second term in January 1989.

Finding a way to deflect the pressure on Capitol Hill for tougher action against South Africa without conceding to demands for punitive sanctions, which the Administration believes could do more harm than good, promises to be one of the trickiest tests.

Both chambers of Congress, the Democrat-controlled House and the Republican Senate, have passed legislation aimed at forcing the White House to stiffen its stance. The punitive House version of the bill which would require, among other things, corporate disinvestment and a trade embargo, is given no chance of Congressional approval.

Presidential priorities are also under attack in the unresolved debate over the 1987 budget. The Administration has already conceded in its latest forecasts that more action is needed to meet the $154bn target for the budget deficit for 1987.

There is, however, not much enthusiasm in Washington for action to achieve this deficit target which was laid down in the Gramm-Rudman-Hollings budget reform law.

Many economists are warning of potential damage to a struggling economy if an effort were made to reach the target now that the deficit for 1986 looks like hitting between $220bn-$230bn. Their concerns are heightened by fears that the tax reform bill, assuming it is passed in the next few weeks, could have negative, short-term effects on economic activity next year.

Deng's plans to retire run into opposition

DENG XIAOPING has said he plans to retire next year as China's leader but is meeting opposition to his plans, Reuter reports from New York.

Deng, 82, also said in an interview on the CBS News programme "60 Minutes" broadcast in the US last night that he would be willing to meet Mr Mikhail Gorbachev, the Soviet leader, if Moscow would help arrange the withdrawal of Vietnamese troops from Kampuchea.

He said it would be better for the sake of political continuity that he should step down rather than die in office.

"Personally I would like to retire early but this is a very difficult question," Deng told interviewer Mike Wallace in Peking on September 2.

"I believe personally that if I retire when I am still around this is better for the demonstration of the continuity of existing policy and this is also in keeping with my personal belief which I have cherished all along," he said.

Asked about an interview five years ago in which he told an Italian journalist he wanted to retire in five years, Deng said: "To be quite frank I am trying to use my persuasion on other people: That is to say I am going to retire at the party's 13th Congress next year.

Deng said the main obstacle in Sino-Soviet relations was Vietnam's presence in Kampuchea.

"The main thing is, if the Soviet Union can contribute to the withdrawal of Vietnamese troops from Kampuchea, this will remove the main obstacle in Sino-Soviet relations," he said.

Papandreou determined to press on with austerity

BY ANDRIANA IERODIACONOU IN ATHENS

THE GREEK Socialist Government is determined to apply an economic austerity programme, launched a year ago, in 1985, irrespective of the political cost, Dr Andreas Papandreou, the Prime Minister, said in an economic policy speech on Saturday.

The Prime Minister called on both workers and businessmen to relinquish the attitude that "the state can and must be charitable in the face of every difficulty."

He delivered his speech at the opening of the annual Salonika trade fair, an occasion which Dr Papandreou used last year to announce a two-year economic stabilisation programme designed to reduce Greece's high inflation and domestic and external deficits.

Municipal elections are due next month which will give an indication of how big a dent the socialists have suffered in their popularity as a result of their 1985 economic U-turn.

The Prime Minister said the Government expects to achieve its set target of a 16 per cent inflation rate, a $1.7bn (£1.15bn) current account deficit and a reduction of the public sector borrowing requirement by 4 percentage points of GDP by the end of this year.

He said that in the first seven months of 1986, the budget deficit was reduced by 26 per cent, or Drs 76bn (£383m), relative to the same period the previous year. Consumer prices increased by 8.2 per cent, and the current account deficit was reduced by 38 per cent, or $813m.

Party lets Nakasone stay on for another year

By Ian Rodger in Tokyo

Mr YASUHIRO NAKASONE, Japan's prime minister, has won the agreement of his fellow Liberal Democratic Party leaders to remain in office for another full year.

Mr Nakasone's second term as LDP president—a post he must hold if he is to be Prime Minister—ends on October 31, and current party rules prohibit a third term. However, following his big election victory last July, party leaders agreed that his wish to remain in office for some additional period would have to be respected.

Under the agreement reached on Friday by leaders of the five main LDP factions, the party's rules will be changed to permit a one year extension of a president's term with the approval of two thirds of the LDP Diet members.

The LDP Diet members will vote on the proposal at a meeting on Thursday, the day the Diet reconvenes for a special session.

● Japan has its first woman political party leader following the landslide victory of Ms Takako Doi in the contest for the chairmanship of the Japan Socialist Party (JSP).

Ms Doi, a former lecturer in constitutional law at Doshisha University in Kyoto, won 83 per cent of the roughly 70,000 votes cast by party members. There was only one other candidate.

The party's previous chairman, Mr Masashi Ishibashi, resigned after the JSP's poor showing in the July election.

WORLD TRADE NEWS

Talks on Gatt round fail to find agreement

BY DIANA SMITH IN LISBON

DISAGREEMENT persists among among the EEC, US, Canada and Japan on how to handle the key areas of the forthcoming round of trade liberalisation talks in the General Agreement on Tariffs and Trade.

Three days of quadrilateral talks in Sintra, Portugal, described by Mr Willy de Clercq, EEC Commissioner for International Trade, as "helping to understand the reasons behind our respective positions" failed to produce consensus on approaches to important issues.

These are the reduction of farm export subsidies, trade in services, which the US insists must be part of the next Gatt round, and Japan's continuing large trade surplus.

However, after the talks, Mr de Clercq said: "Among ourselves there is a very large consensus on objectives and substance. We obviously have a different perception on a few problems."

Mr Hagime Tamura, Japan's Minister for International Trade and Industry, stressed that in his view the Gatt was not the place to discuss such issues as the Japanese trade surplus.

Mr Clayton Yeutter, the US Special Trade Representative, forcefully repeated his country's insistence that unless agriculture, services and other top US priorities, such as intellectual property (protection of patents), were written to his country's satisfaction into the new Gatt negotiations there will either be no new round or the US will not be a part of it.

US officials made it clear they will not relent on their stand that the EEC, whatever negotiation of farm policy and farm export subsidies, must help to draw up Gatt rules to end farm export subsidies.

They consider that EEC ministers have so far made little progress in dealing with

World trade will grow more chaotic unless agricultural trade policies become less protectionist, Mr Richard Lyng, US Department of Agriculture Secretary warned, Reuter reports from Washington: "The status quo cannot hold," he said. "If we do not make world agriculture trade freer and fairer, it will not stay as it is today. It will certainly grow more chaotic."

the distortions of the Common Agricultural Policy and believe that if sufficient external pressure is brought to bear, EEC members must bow to the world's farming crisis.

Reminded in Sintra that the US will withdraw from the Gatt round if opposition, led by Brazil and India, keeps trade in services off the agenda, the EEC has been trying to come to terms with the militant developing countries on ways in which new Gatt issues may be handled.

The US believes that by the end of the meetings in Uruguay, Brazil can probably be persuaded to drop its opposition.

On sensitive political themes, the Sintra meeting found consensus. The participants would not welcome participation by the Soviet Union in the Gatt, not only because of its centralised economy but because of fears that it would politicise Gatt issues.

The participants do not believe the Gatt should be used as a forum for retaliatory action against a country such as South Africa. This position was expressed because of a move by a handful of African countries to have South Africa excluded from the Gatt round if sanctions are imposed internationally.

A question of patent unfairness

GATT

Launching the new round

Christian Tyler, our Trade Editor, on growing resentment in the developed world about the infringement of so-called intellectual property rights

ONE OF the contentious questions to be decided by world trade ministers when they meet in Uruguay next week is whether the General Agreement on Tariffs and Trade should attempt to negotiate rules to curb the abuse of patents, copyrights and trade marks.

Counterfeiting of goods—from handbags to pharmaceuticals to car parts—is big business, estimated by the US International Trade Commission to have cost US companies alone as much as $20bn (£13.4bn) in lost sales at home and abroad in 1984.

Patents granted in one country may be unenforceable in another, while breach of copyright—of books, taped music, films, or computer software—has become endemic.

As well as financial loss, the infringement of so-called intellectual property rights has created enormous resentment in the developed world as manufacturers watch the return on big product development budgets slip from their grasp.

It has undoubtedly reinforced the case of protectionists in the US and elsewhere who argue that their home markets should be closed to competitors who do not trade "fairly." The US Administration has led the campaign for Gatt to negotiate over the problem.

It is one of three new issues, along with trade in services and freedom of trade-related foreign investment, that the US sees as imperative for modernising the system.

The Administration has been pushed by a powerful coalition of computer, chemical and automobile manufacturers, the Intellectual Property Committee, which claims piracy is undermining their competitiveness and distorting world trade.

"It may take up to 10 years and $100m to bring a pharmaceutical product to market," says a recent paper from the committee.

"But a chemist with an MA degree can duplicate the product and, if not legally constrained, could produce the drug in sufficient quantities to preempt the legitimate drug from the market."

Dissatisfaction reaches far wider than the US. Last month, the International Chamber of Commerce, with member firms in 58 countries, called on governments to make the protection of intellectual property "a matter of high importance in international discussion" and brought on to the Gatt agenda.

There are several conventions covering intellectual property rights: the Paris Convention of 1883, which sets out minimum standards for national legislation; the Universal Copyright Convention of 1952; the Patent Co-operation Treaty of 1970 and the charter of the World Intellectual Property Organisation (Wipo), established by the United Nations in Geneva 12 years ago. The General Agreement contains scattered references justifying measures that protect patents, trademarks and copyright.

But the conventions are far from universal. Nor is there any mechanism for enforcing the requirements, according to multinational companies and their allies in Western governments.

US multi-nationals have identified 10 countries where they say the bulk of the copyright abuses occur: Singapore, Taiwan, Indonesia, South Korea, the Philippines, Malaysia, Thailand, Brazil, Egypt and Nigeria. US officials are trying to negotiate bilateral controls with some of these countries. Attempts to persuade governments to stamp on the pirates voluntarily, however, have had limited success, manufacturers say.

One explanation is that in many parts of the Orient, the concept of intellectual property rights is not recognised. Western businessmen complain, for example, that Chinese customers will pay for the equipment but expect to obtain the know-how for nothing.

Leading developing countries in the Gatt, such as India, Brazil, Argentina and Nigeria, are resisting the idea of trade rules for intellectual property. They say the Gatt has no jurisdiction in the field and that the UN agency is the right forum.

They foresee that their manufacturers' exports to rich markets might be curbed in retaliation for failure to control the counterfeiters or to grant longer-running protection for Western inventions.

There is also a danger that their access to the foreign technology on which they depend might be unfairly denied them once Gatt rules permitting retaliation were in place.

Because of this disagreement, the Swiss-Colombian draft agenda for Uruguay, which has majority support, puts brackets round its proposal for negotiation on the topic. It will be for ministers to explore whether language can be found to allow the brackets to be removed.

The text lays down three negotiating objectives on intellectual property: to promote wider and more effective application of international standards; to ensure enforcement does not create barriers to legitimate trade; and to "clarify and elaborate rules and disciplines."

It also talks of a framework of principles and rules for trade in counterfeit goods, referring to the draft anti-counterfeit code drawn up at the end of the Tokyo round in 1979. It says negotiations would be "without prejudice" to initiatives taken by Wipo or elsewhere.

US and EEC settle row on steel and citrus trade

BY DIANA SMITH IN LISBON

THE US and EEC have finally settled their differences over European exports of semi-finished steel products and imports of US citrus products.

Mr Clayton Yeutter, US Special Trade Representative and Mr Willy de Clercq, EEC Commissioner for International Trade, at a meeting in Sintra, Portugal, agreed formally to implement, from September 15, the arrangements on semi-finished steel products reached in July.

EEC semi-finished steel products were piling up in European ports and US citrus exports were unable to enter the Community because these arrangements had not been put into effect.

Under the arrangement, the EEC will be able to export 300,000 tonnes of semi-finished steel to the US between September 15 and December 31 this year.

In 1987, 1988 and 1989 the community will be able to export 620,000 tonnes, 640,000 tonnes and 520,000 tonnes respectively.

The EEC will lift restrictions on imports of the US citrus products into the community which had been imposed during the dispute.

Mr de Clercq said the settlement was a good omen for the next round of US-EEC negotiations for a permanent settlement over the effects of the community's enlargement on US farm exports.

These talks are likely to be tough. US farmers are losing billions of dollars in wheat, corn and oilseed exports to Spain and Portugal as these two new EEC members switch to community grain.

Portugal and Spain are among the world's largest importers of US grain; in a bad agricultural year, Portugal buys almost $1bn (£668m) worth from the US.

There is strong pressure on the Reagan Administration from the US farming community to do whatever it can about the loss of this market.

Furthermore there are signs that neither Spain nor Portugal is pleased at having to switch to EEC grain, which means expensive conversion of mills and cattlefeed.

Oil consumption up sharply in summer

BY LUCY KELLAWAY

OIL supply is likely to exceed demand by 2.6m barrels a day during the third quarter of this year, according to the International Energy Agency, based in Paris.

The agency's Monthly Oil Market Report, published today, shows a sharp increase in oil consumption during the summer, outstripped by an even larger rise in production.

Oil consumption in industrialised countries rose in the second quarter by 4.5 per cent, to 3.8m barrels a day after a 1 per cent rise in the first. Assuming a 4 per cent increase in the third quarter, consumption for the first nine months of the year will be 2.5 per cent higher than last year.

Meanwhile, oil supply since June has risen sharply from about 47.9m barrels a day to 49.8m barrels in July/August. The increase is mainly due to a rise in Saudi Arabian output of about 1.2m barrels and to higher output from the North Sea as early summer maintenance work was finished.

After producing heavily throughout July and August, the Organisation of Petroleum Exporting Countries is expected to cut production this month by 3m barrels to 16.8m barrels a day, in accordance with its temporary quota agreement, which came into force on September 1.

The main cause of the increase in oil consumption is heavy consumer stockbuilding, in particular of heating oil. If this is followed by destocking in the fourth quarter, the IEA says that its forecast of 3.5 to 4.5 per cent consumption growth for the past three months may prove too high.

Of the 2.6m barrels imbalance between supply and demand, expected this quarter, only 0.8m is accounted for by higher stocks. The IEA attributes the gap to higher production in the Middle East.

Oil prices are likely to stick at $15 a barrel throughout next year as a result of production cuts, says the September World Trade Forecast published today by the Economist Intelligence Unit.

Japan and US in deal on defence

By Ian Rodger in Tokyo

JAPAN has finally approved the sale of two types of military technology to the US, thus breaking its long-time ban on military exports. The first two deals involve Toshiba and Ishikawajima-Harima Heavy Industries.

The move was foreseen three years ago when the countries agreed to exchange military technologies. Observers then expected the US immediately to go on a technology shopping spree in Japan.

A US study group in 1984 identified 16 Japanese technologies, including semiconductors, voice recognition systems and new materials, in which the US would be interested.

There have however, been obstacles on both sides. Japanese and US defence equipment makers have been reluctant to share their most advanced technologies and the Japanese Government has been sensitive about the political impact of being seen as an arms merchant.

The country's ban on military exports has been a cornerstone of its post-war defence policy.

In the early 1980s, the US put increasing pressure on Japan to reciprocate military technology transfers and in November 1983 Japan agreed to make the US exempt from its export ban policy.

Threat to US grape harvest

BY LOUISE KEHOE IN SAN FRANCISCO

CALIFORNIA'S wine grape harvest is threatened by a strike among workers who have vowed to bring the $5.5bn (£3.7bn) industry to a halt if they cannot settle a wage dispute.

The strike comes as grape growers in the state's premium wine producing regions, the Napa and Sonoma valleys, are beginning their harvests. Only about 25 per cent of the wine grape harvest has so far been crushed, according to the state Food and Agriculture Department.

Growers are increasingly concerned that delays caused by the impasse between the wineries and workers could ruin their crops.

The strike, which began a month ago at a few small wineries, spread last week to nine wineries including Almaden Vineyards, the second largest producer in the state. About 1,300 winery workers are on strike.

So far, however, the state's largest wine producer, E. & J. Gallo, has not been affected.

Attempts to settle the dispute through a federal mediator failed last week. No new talks are scheduled.

At the root of the dispute is an attempt by the wineries to cut costs in the face of competition from foreign wines. Workers have been asked to accept pay cuts and reductions in benefits. To date they have agreed only to a small wage cut.

California grape growers claim subsidised French and Italian wine has been sold in the US for less than half the cost of production. They recently won an appeal to the US Court of International Trade to have their unfair trade charges investigated by the US International Trade Commission, which could impose dumping duties on the European wine if dumping was found to have occurred.

● Czechoslovakia has agreed to buy $1m of Cyprus wine this year to help drain a wine lake fed by a Soviet crackdown on alcoholism, Cyprus officials said yesterday, Reuter reports from Nicosia.

They said a trade accord would be signed this week when a Czechoslovak trade delegation visits four major wine producers.

In a statement announcing the visit, the Czechoslovak Ambassador, Ladislav Skerik, called the proposed deal "a contribution of the Czechoslovak government to the Cyprus economy.

Italy balance of trade surplus doubles

BY JOHN WYLES IN ROME

THE improvement in Italy's balance of trade continued in July when the surplus was more than twice as high as a year ago.

Largely, but not entirely, due to the fall in world oil prices, the much better trading performance promises to cut the balance of payments deficit by as much as two-thirds by the end of this year compared to 1995.

The surplus in July rose from L568bn (£270.5m) last year to L1,2x0bn. The value of energy imports fell by 49 per cent so that total imports were only 1.4 per cent higher at L12,410bn. Exports, meanwhile, rose by 6.5 per cent to L13,630bn.

In the first seven months, the trade deficit has been cut by two-thirds to L5,524bn from L16,372bn compared to a year ago. This has been helped by a good performance by Italian exports—the trade surplus on non oil goods having risen by 25 per cent from L6,706bn to L8,418bn.

Italy's generally sunny economic mood was boosted last week by cuts in banking prime rates charged to the highest quality borrowers. These were settling on Friday at about 13 per cent after major banks, led by the Banca Nazionale del Lavoro and the Banco di Roma, announced reductions of 0.5 or 0.75 per cent.

The cuts reflect both falling inflation and money market rates, but to most Italian borrowers real interest rates remain among the highest in Europe at between 7 per cent and 9 per cent.

SHIPPING REPORT

Dry cargo market comes out of the doldrums

BY KEVIN BROWN, SHIPPING CORRESPONDENT

THE IMPROVEMENT in the long-depressed dry cargo market built up rapidly last week, bearing out brokers' predictions that rates would continue to rise.

The tanker market was also unexpectedly active, with good volumes of trade in all the leading markets despite the closure of the New York market for a holiday on Monday and fears that charterers had covered the bulk of their programmes.

Activity in the dry cargo market was helped along by operators expecting growth in the grain and coal trades, and brokers said there was intense timecharter interest in 60,000 to 80,000 deadweight tonnes Panamax bulk carriers.

Denholm Coates, the London shipbroking firm, said dry cargo rates had surged ahead, reaching $12.50 a ton for grain shipments from the US to Japan, a rise of $2 following an increase of $1.50 in the previous week.

World Economic Indicators

		July 86	June '86	May '86	July '85
US $bn	Exports	17.707	19.070	17.431	16.727
	Imports	35.745	33.240	31.638	28.312
	Balance	−18.038	−14.170	−14.207	−11.585
UK £bn	Exports	5.990	5.826	5.865	6.334
	Imports	6.577	6.449	6.563	6.411
	Balance	−0.588	−0.623	−0.698	−0.077
France FFr bn	Exports	74.60	72.10	68.77	74.30
	Imports	73.10	73.40	70.85	78.10
	Balance	+1.50	−1.30	−2.08	−3.80
		June '86	May '86	April '86	June '85
Japan $bn	Exports	17.48	17.89	17.76	14.44
	Imports	10.10	10.36	10.93	9.42
	Balance	+7.38	+7.53	+6.83	+5.02
W Germany DM bn	Exports	44.07	42.65	45.86	44.83
	Imports	34.57	34.33	36.72	39.26
	Balance	+9.50	+8.32	+9.14	+5.57

Leipzig exhibitors face struggle for orders

BY LESLIE COLITT IN LEIPZIG

REGULAR western exhibitors at the biannual Leipzig Fair, the largest East-West trade event, are used to climbing a slippery slope. The latest uphill struggle companies face in winning orders has been created by the collapse of oil prices in the West but they are refusing to succumb to pessimism.

The fall in oil prices has meant sharply declining hard currency revenues for the Soviet Union which depends on fuel exports for 80 per cent of such earnings.

Moscow's East European partners who are active re-exporters of Soviet oil and sellers of oil products and chemicals in the West, are also feeling the full impact of low prices for their products. This is reflected in shrinking Comecon exports to leading Western trading partners.

Western businessmen gathered in Leipzig last week were thus fervently hoping that oil prices will rebound before Comecon is forced to further restrict its purchases.

But Mr Paul van Pottelsberghe of Belgium's Solvay Chemicals points out that the present slump in East-West trade is far from reaching crisis proportions. "The crisis was in the 1970s," he explains, "when we sold them too much."

Western chemical companies, which were out in strength at the Leipzig autumn fair, have noted that low oil prices have affected them less than their Eastern customers.

The East Europeans buy Soviet oil at a price based on a sliding five-year average of world prices and as a result East European prices are much higher than in the West.

The greatly reduced prices for basic chemicals in the West has led to a drop in the value of Western sales to Comecon, but not necessarily in profitability. Prices for specialty chemicals have been far less affected and Eastern European demand is still strong.

Sales to East Germany by West Germany's leading chemical companies, for example, fell 18 per cent in the first half of the year but their representatives note that this had not greatly affected earnings.

Companies such as Hoechst and BASF which have a volume of between DM 200m £51m) and DM 300m in annual trade with East Germany buy nearly as much in chemicals from it as they sell.

As a result of the lower dollar, US chemical companies are offering fierce competition to the European majors on the East German market.

They are said to be selling fertilisers, conveyor belting and other fibres at up to 50 per cent below the prices of their European competitors.

The situation for Western exporters of plant and equipment to Comecon is, however, more difficult.

Uhde, the West German engineering company which is heavily engaged in the Soviet Union and East Germany, lost a potential contract to build a fibres plant in the Soviet Union, which has postponed several large projects in the new Five-Year Plan because of uncertainty over oil prices.

Krupp says that its orders from the Soviet Union and other Comecon countries are running at "an average to a reduced level," but that it again hopes to sell about DM 170m in steel and plant to East Germany this year and to buy about DM 110m in East German machinery.

West German bankers in Leipzig admit that Moscow's scaling down of investment projects was a disappointment.

As late as the beginning of this year, Soviet officials had chosen several West German companies to build plants, mainly in the chemical and automobile sectors, and talks were under way with German banks on financing.

But West German bankers point out that the Soviet decision to postpone large investments was a "sensible one" and that scaled-down projects may be revived in the Five-Year Plan.

UK NEWS

Labour plans limits on tax avoidance schemes

BY IVOR OWEN

AN INCOMING Labour government will provide the Inland Revenue with more staff and give them the task of reducing the scope for legitimate tax avoidance schemes, in addition to dealing with illegal tax dodges.

A policy statement drawn up by Labour's National Executive Committee (NEC) for submission to the party's annual conference which opens at Blackpool on September 29 proposes "a clampdown on fringe benefits, tax evasion and tax avoidance."

While looking to this area to provide a valuable additional source of revenue, the NEC has introduced a marked note of caution over the timing of already promised increases in expenditure on social security.

In sharp contrast to a recent specific statement by Mr Michael Meacher, the party's shadow social services secretary, pledging that a costly uprating package would feature in the "first budget" of the next Labour government, the policy statement does no more than accord "high priority" to protecting and improving child benefit in its first year of office.

Proposals for redistributing the tax burden so that it weighs more heavily on the higher paid, including restricting the relief on mortgage interest paid by home owners to the standard rate of income tax only, and the introduction of a wealth tax, are reaffirmed.

Other changes in the tax structure which the conference will be invited to endorse provide for tightening the regime for capital gains and investment income, the introduction of a new reduced rate band of income tax for the low-paid, and the reimposition of a comprehensive tax on capital transfers.

The proviso "as resources allow" governs the timing of a wide range of improvements in social security provision.

The NEC statement envisages that a "substantial number of jobs" will be created in the Inland Revenue to mount the new drive against tax avoidance and evasion.

It is claimed that the cost of swelling the ranks of the Civil Service for this purpose will be exceeded "many times" by the accretions to the Treasury's coffers resulting from limiting the opportunities for tax avoidance and evasion.

Resolutions calling for the phasing out of nuclear power stations dominate the conference agenda.

They pose a potential threat to the post of Dr Jack Cunningham, the shadow environment secretary. Dr Cunningham, a close ally of Mr Neil Kinnock, the Labour leader, and an eloquent advocate of the use of nuclear power for civil purposes provided there are adequate safeguards, is assured of support from the union leaders anxious to preserve the jobs of their members in the nuclear industry.

Public sector warned on pay

BY OUR POLITICAL STAFF

MINISTERS are calling for more determined efforts to ensure that, where the Government is the direct employer, any increases negotiated in the coming pay round are kept more closely in line with the level of inflation.

Some categories of civil servants are likely to be told that, if they do succeed in obtaining rises which cannot be contained within the annual budget allocated for the running of their departments, cuts in staff are likely to follow.

Mr Kenneth Clarke, the Paymaster General and chief spokesman for the Department of Employment in the House of Commons, underlined at the weekend the need for the Government to show "determination" in the coming pay round as the nation's largest employer.

His comments signalled the launching of an offensive by Cabinet ministers angered by what they regard as the excessive settlements – averaging 7.5 per cent – which characterised the bargaining period now coming to an end.

Mrs Margaret Thatcher, the Prime Minister, and Mr Nigel Lawson, the Chancellor of the Exchequer, have protested in recent speeches that the success achieved by the Government in containing inflation has been dissipated to a large extent by excessive pay settlements which have prevented employers making as large a contribution as the Government had hoped to reducing unemployment by taking on more labour.

At the same time, Ministers are making it clear that the Government has no intention of returning to what they describe as "an institutionalised incomes policy" or of setting a specific pay "norm" to be applied to all those in its direct employ.

Redundant workers reject job offer

BY LISA WOOD

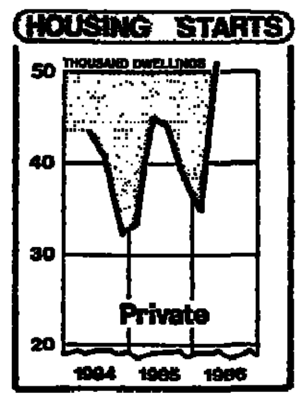
THE MAJORITY of workers at a machine tool factory which is to be closed have rejected an offer to move more than 200 miles to new jobs offered by their employer.

TI Machine Tools, which is to close its Blaydon plant, Tyne and Wear in north-east England, gave the 440-strong workforce first chance of 190 jobs which the company is creating at its Coventry plant in the Midlands.

Although unemployment in Tyne and Wear is double the national average, only 20 people have taken up the offer of permanent jobs in the Midlands while about 30 are to move there on short-term contracts.

Mr Lawrie Izzard, operations director of the machine tools division, said: "The view that we have perceived is that a lot of the workforce have been living in this area for a long time, they have their families here and moving is more than they are prepared to do. We are very disappointed that not more people have come forward but we are sympathetic to people's wishes."

TI Machine Tools, a subsidiary of TI, the diversified engineering group, is having no difficulties in filling the new places in Coventry.



Building materials run short

By Andrew Taylor

A BIG increase in private housebuilding, particularly in the south of England, is creating shortages of lightweight concrete aerated blocks used by housebuilders to construct the inner walls of new homes.

Thermalite and Celcon, which between them control more than 80 per cent of the aerated block market, are quoting up to 12 weeks for delivery in the south. They are warning customers to plan ahead and to give as much notice as possible of requirements.

So far housebuilders say that shortages have not held up work. Nonetheless the problems illustrate the pace at which new private housebuilding has accelerated this summer, particularly in the south-east.

According to the Environment Department, the number of new private homes started in May, June and July was 15 per cent more than in the same three months last year.

In some regions the rate of increase has been much higher. Costain Homes, which operates mostly in the south-east, south-west and Midlands says that, despite bad weather earlier this year, it expects to start work on more than 2,000 private homes in 1986 – an increase of more than 17 per cent on 1985.

Celcon and Thermalite, although they have stepped up production, have been unable to meet fully the demand for aerated concrete blocks.

Celcon says that in May, June and July it produced 12 per cent more blocks than in same three months last year.

Motor trade counts the cost of record summer sales bulge

BY JOHN GRIFFITHS

THE estimated extra cost to the UK's four main car makers and their dealers of meeting August's record car sales bulge was at least £50m, based on submissions made by the manufacturers to the Society of Motor Manufacturers and Traders (SMMT).

The total of 382,215 cars sold was about 10,000 more than the SMMT was expecting.

The new peak has lent extra urgency to efforts being made by the SMMT and the retailers' body, the Motor Agents Association, to find a compromise on a new registration system which might make the bulge more manageable, yet without reducing the year's total sales.

The two sides have scheduled a meeting for September 17 for new talks on the issue. In the meantime they have backed away from conflict over the choice of an alternative month by agreeing to reconsider their own and each other's positions.

The SMMT had urged the adoption of the prefix change to October 1, starting with the E plate next year – a move already accepted by the Department of Transport. The MAA had bitterly protested the decision, calling instead for a change on July 1.

Both sides are anxious to reduce the high level of costs associated with servicing the month's sales boom engendered by the prefix, and which arises from increased manufacturing, stockholding and other costs.

In statistics submitted to the SMMT covering the August 1985 period – when 8,000 fewer cars were sold than during last month – the UK "big four" (Ford, Vauxhall, Austin Rover and Peugeot/Talbot) between them claimed additional manufacturing costs of £2.6m associated with overtime working. They also claimed £3.1m in higher warranty costs through less satisfactory pre-delivery inspections of cars and £20.4m in extra stockholding costs, for a total of £26.1m.

They calculated it cost their dealers £21m in extra storage and financing costs, and £1.6m in overtime to handle the flood of pre-delivery inspections.

Inflation and the higher volume still this year will have taken these figures well over £50m.

Even then, the SMMT points out, the figures exclude the costs borne by importers, and any short-time working which might follow in the autumn should a manufacturer have over-estimated the size of the August market.

What the SMMT does stress is that every alternative appears to have its pros and cons.

But what it has now done is calculate the cost and sales volume implications of changing to each of the four other months which have been proposed.

The one calculation it has not made relates to total abolition of a yearly identifier, to which the Home Office is opposed, declaring that the prefix helps the police.

By the SMMT's calculations, a change to October 1 would cost the least, and create the smallest bulge.

However, the SMMT acknowledges that dealers are legitimately concerned about their ability to dispose of trade-ins during winter months in the event of a switch to October 1.

Commercial vehicle sales down

AUGUST failed to produce any resurgence in the UK commercial vehicles market, which has stagnated this year after a long, slow recovery from the recession in 1981, John Griffiths writes.

Statistics from the Society of Motor Manufacturers and Traders show August's 35,095 commercial vehicle registrations to be down 0.88 per cent on the same month of last year.

Sales in this year's first eight months, at 198,830, were just 0.22 per cent ahead of last year's figure of 198,402.

August, when the new registration prefix is introduced, is less significant to the commercial vehicle industry than to car-makers. But it is still one of the strongest sales months, accounting for about 12 per cent of a typical year's sales.

The current sales plateau is particularly discomfiting to UK manufacturers, whose production has been declining in the face of rising imports.

Importers took 43.12 per cent of the market last month, up from 41.30 per cent in the year-ago period. This brought their year-to-date share to 39.99 per cent, compared with 36.83 per cent. If the trend continues, 1986 will mark the first year in which imports break through the 40 per cent barrier. In the late 1970s, imports had only a 20 per cent share of the market.

Sales of heavy trucks fell in August by 6.5 per cent to 5,277, while for the year to date they were down by 2 per cent to 36,322 (37,057). The importers' share rose to 38.59 per cent (35.57). Leyland Trucks further consolidated its market-leading position, with August sales up to 930 (896) and year-to-date sales of 6,362 (5,882).

However, Iveco Ford, the merged Ford and Fiat-owned Iveco heavy truck operation, featured for the first time in last month's registration statistics. Only 42 registrations were shown for the joint company, but Leyland's market-leading position is almost certain to disappear when Iveco Ford operations are fully rationalised. Ford was credited separately with 670 heavy truck registrations last month, down from 1,086 in August last year, and Iveco with 178, also down, from 221.

The warning towards the end of last month from General Motors vice president Mr Robert Stempel that its Bedford heavy trucks operation faced a "bleak" future did not prevent Bedford from achieving 648 heavy truck sales last month, well up on the 518 of the previous year, although for the first eight months its sales were down at 3,744 (4,294).

Among the importers, Mercedes once again beat Ford into second place, with 762 sales.

Citroën and Renault continued to make strong gains in the light vans sector, partly at the expense of Ford and Austin Rover. Sales of Citroën's Visa car-based "Van Blanc" and "Van Rouge," reached 299 in August, bringing Citroën's sales in the sector to date to 1,722, more than 10 times the 1985 level. Renault's performance, the result of the van version of the new R5 car, saw 721 sales in August and more than tripled sales year-to-date, to 2,829 (869). Austin Rover's sales in the sector last month fell slightly to 1,857 (1,928) and Ford's to 3,543 (4,566).

Total light van sales for the month were 12,830 (12,215) and for the year to date 67,820 (64,970).

Spending on ships declines by 44%

EXPENDITURE on new and secondhand ships by private sector shipping companies fell by 44 per cent in 1985 compared with the previous year, according to figures released by the Trade and Industry Department, Kevin Brown writes.

When sales of ships to foreign owners are taken into account, net investment in the British merchant fleet fell by 59 per cent to £196m, the lowest level since 1981.

The industry spent £267.6m on 34 new ships and £93.5m on 31 secondhand ships in 1985, a total of £361.1m. This compares with £554.7m on 39 new ships and £90.5m on 45 secondhand ships in 1984, a total of £645.2m.

The number of disposals of ships to foreign owners fell only slightly, from 109 to 93, valued at £168.3m and £165m respectively, reducing the total net investment from £476.9m to £196.1m.

The value of 1984 purchases was inflated by the delivery of the £120m cruise ship Royal Princess, built in Finland for P & O, but the fall in investment between the two years reflects the continuing deep recession in shipping caused by overtonnaging in most of the key sectors.

UK shipyards built 15 of the ships delivered in 1985 but accounted for only a quarter of the total tonnage. Only one British-built ship was bigger than 10,000 gross registered tonnes, compared with five in 1984.

□ MORE THAN a year after the end of the coal strike, the UK has been using substantially less coal than in the immediate aftermath of the strike.

Between May and July, coal consumption was 2.3 per cent lower than in the same period of 1985, with coal production also fractionally lower than a year ago.

□ SHARES in the Trustee Savings Bank after its flotation are likely to rise sharply in the after market and may even double in value, according to stockbrokers Scrimgeour Vickers.

In a report on the TSB, whose flotation price is to be announced on Friday, the firm's bank analysts say that the TSB has grown faster than any quoted bank since 1981 and has achieved a higher return on its capital.

UK NEWS

City bill said to create 'regulatory minefield'

BY CLIVE WOLMAN

THE FINANCIAL Services Bill, now in the final stages of its parliamentary passage, should be fundamentally restructured because it creates a "regulatory minefield" for industrial and commercial companies, according to a memorandum submitted to the Government.

The memorandum was sent last month to the Department of Trade and Industry (DTI) by the Association of Corporate Treasurers (ACT), which represents most large UK companies. It claims that the bill, by aiming to provide comprehensive protection to investors, will catch many of the ordinary activities of non-financial companies. An administrative burden will be placed on the authorities if hundreds of such companies have to be authorised, the ACT says.

DTI officials have been irritated by the lateness of the lobbying campaign of the ACT and other industry umbrella groups. The Government's White Paper (policy document) on the bill was published in January 1985, the bill itself was issued last December and the House of Commons committee stage was completed by April, they point out. It is only since then that the ACT has made any detailed representations about the bill, they say.

Nevertheless the officials have accepted that a further batch of amendments is necessary and these will be introduced at the report stage in the House of Lords next month.

The ACT memorandum gives several examples in which, it claims, industrial companies will be caught by the bill's provisions:

- A company which is the target of a hostile takeover bid will have to be authorised as an investment business if it wishes to advise its shareholders not to accept the offer.
- An exporter that suggests to its foreign buyer the use of currency options to finance its purchase will have to obtain authorisation.
- A consultant advising on the restructuring of a group of companies may recommend the incorporation of new subsidiaries without further consequences. But if he recommends the purchase of a "shelf" company or the transfer of the share capital of any of the group's companies, he will have to be authorised.

Officials at the DTI say that businesses that give such advice only occasionally are already granted defences under the bill. The ACT claims that such defences are inadequate. If a restructuring of the bill is no longer practicable, the ACT proposes a strengthening of the defences.

The ACT also proposes that the bill be amended to give either the DTI or the Securities and Investments Board, the embryonic City of London regulatory body, the power to grant exemptions to businesses for both particular transactions and types of transaction. It suggests that the regulators should follow a procedure similar to that of the Securities and Exchange Commission in the US which would ensure that details of all exemptions were publicly available.

Eric Short writes: The British Insurance Brokers' Association (Biba) has warned the Life Assurance and Unit Trust Regulatory Organisation (Lautro) that intermediaries will incur additional expenses as a result of proposals in the Financial Services bill and that this must be reflected in the commission paid by life companies and unit trust management groups.

Its submission to the Lautro commission committee lists the financial service requirements being imposed on registered life brokers and other intermediaries, including at least a doubling of professional fees to meet the accounting requirements, a substantial increase in professional indemnity insurance premiums and contributions to a compensation fund.

Electrical engineering output falls

By David Thomas

OUTPUT of the UK electrical engineering industry fell sharply in the first quarter of 1986, reversing the trend of the last three years, when it was one of the most rapidly growing sectors of British industry.

Electrical engineering output in the first quarter was 7 per cent down on both the first and last quarter of 1985, according to an article in British Business, the Department of Trade and Industry (DTI) magazine, which examines the performance of the sector last year.

The sector, as defined by the DTI, contains a number of electronic goods, such as electronic data processing equipment, and electrical goods, such as domestic appliances.

Output in the sector overall rose 8 per cent last year, compared with a 3 per cent rise in manufacturing as a whole. Even so, employment fell by 5,100, with 730,500 workers employed in the sector at the end of the year.

Sales of UK electronic data processing equipment rose more rapidly than those of other goods in the sector. They were up by 33 per cent last year to nearly £3.2bn, cutting the trade deficit in data processing equipment to £0.8bn in 1985 from £1bn in 1986.

In the entire sector last year, exports rose by 21 per cent and imports by 12 per cent.

Campaign for National Bus sale begins

By John Griffiths

A CAMPAIGN starts this week to advertise the sale of the 70 constituent companies of the National Bus Company (NBC).

The campaign will stress that privatisation of the NBC is to take the form of the sale of individual companies, rather than as a whole or by regions.

Drawn up by agency Maitlands Hard Gill, it relies heavily on nostalgia to promote interest, allied to suggesting options like management buy-outs, or joint ventures by potential purchasers with existing management teams.

Mr Brian Cooper, NBC's public affairs director, said a number of management buy-outs were already under consideration.

Two NBC companies, National Holidays and Devon General, have already been sold; the latter to a management buy-out. As many as six more local companies could follow Devon General's example and complete a management buy-out before October 28, when legislation to deregulate the bus industry comes into effect, according to Peat Marwick, financial advisers to Devon General's management team.

Mortgage cash 'redirected'

Financial Times Reporter

ABOUT £18bn worth of house mortgages in 1985 were used for purposes other than home loans, with a minimum potential loss of £11.74bn income to the Inland Revenue, says a report published by a new business management magazine.

Homeowners are taking out top-up mortgages, ostensibly to make home improvements, but using the money instead for a new car or holiday and benefiting from the tax relief, says the report prepared by the London stockbroker Quilter Goodison and published in The Mortgage Business.

UK NEWS

Thatcher faces loss of morale in Lords

By Ivor Owen

SAGGING morale in the ministerial ranks in the House of Lords is adding to the problems of Mrs Margaret Thatcher, the Prime Minister, as she plans the changes in her government team due to be announced later this week.

It was made known during the weekend that the Earl of Swinton, who has been the government's deputy chief whip (parliamentary party manager) in the Upper Chamber since 1982, has tendered his resignation.

His decision to quit came in the wake of the departure of the Earl of Elton, one of the most effective debaters on the Conservative benches, who only last week resigned his post as Minister of State at the Department of the Environment.

Lord Elton and, to a lesser extent, Lord Swinton gave a measure of confidence and authority to an otherwise lightweight group of junior and middle-rank ministers in the Lords.

Their return to the backbenches will exacerbate the difficulties faced by the Prime Minister in finding talented peers who are prepared to undertake ministerial duties, which make heavy demands on their time and offer financial rewards which, in some cases, only match the £20,000 a year now paid by some MPs to their secretaries.

Cardiff chosen for attack on urban decay

BY ANTHONY MORETON, REGIONAL AFFAIRS EDITOR

SOUTH CARDIFF in Wales is to be the site for the Government's first urban development corporation (UDC), part of its attack on run-down inner city areas.

An announcement is expected next month after Mr Nicholas Edwards, Secretary of State for Wales, returns from a visit to the US.

Mr Edwards, who is particularly keen on developing Cardiff into a waterside city, is paying special attention to what has happened in Baltimore and Boston, cities which have achieved great success in regenerating themselves through waterfront activity.

He will be joined in the US by Mr Geoffrey Inkem, chairman designate of the Land Authority for Wales, which has been putting together a package of land in south Cardiff capable of development. Mr Inkem will fly to Boston from San Francisco after attending a conference on urban regeneration.

The Land Authority for Wales is expected to have a major part in the plans for south Cardiff, once known throughout the world as Tiger Bay.

The Welsh Development Angency will also have a key role. Last week it set up an urban development unit under Mr David Clowes

The Welsh announcement will be in addition to plans now being drawn up by Mr Nicholas Ridley, Environment Secretary, to establish as many as 10 urban development corporations in England on the lines of the London Docklands Development Corporation and the Merseyside Development Corporation, both introduced in 1981.

Mr Edwards paid a visit to London Docklands last Thursday. He was particularly interested in the short take-off and landing (Stol) airport now being developed and will be keen to see one in Cardiff.

The Department of the Environment is understood to be looking at areas in northern cities such as Newcastle, Hull, Leeds and Sunderland and local authority areas such as Salford and Trafford in Greater Manchester. It has also considered Birmingham but the council there is opposed to the idea and is working on its own partnership scheme for part of the city with the private sector.

Mr Edwards has considered a partnership scheme for south Cardiff but is inclined to favour a development authority since the two main local authorities, South Glamorgan County Council and Cardiff City Council, accept the scheme in principle.

He has the added advantage over his English counterparts in that a UDC for Cardiff could be introduced immediately by statutory order.

Air show orders reach over £1bn

By Michael Donne

ORDERS AND agreements for new aircraft, engines and aerospace equipment announced at this year's Farnborough International Air Show in Hampshire already amount to a record of more than £1bn.

This figure is expected to be substantially exceeded when values can be placed on many orders for which companies, for commercial reasons, have not disclosed prices.

Air Marshal Sir John Curtiss, the director of the Society of British Aerospace Companies, which runs the air show, said: "This has been our most successful Farnborough yet. There has been unprecedented media, trade and public interest. Both British and foreign exhibitors have commented most favourably on the high quality of the trade visitors in evidence here this year."

Sir John added: "Many exhibitors have already requested space for the Farnborough International Air Show in 1988 and we intend to make it an even bigger show than this year.

"I will certainly be planning to meet the full requirements of all our exhibitors, including those that we could not accommodate on this occasion," he said.

Dealing firm to specialise in European stocks

BY CLIVE WOLMAN

AN INTERNATIONAL securities dealing firm, Ark Securities, which has been set up largely by 22 former employees of stockbrokers Quilter Goodison, begins trading today.

The firm represents an exception to the trend of the last three years in which stockbroking and jobbing firms have been acquired by banks and other large institutions. Ark is owned exclusively by its 16 working partners who have left larger institutions and provided £250,000 of their own capital. The firm is to specialise in researching and dealing in European stocks and will hold stock on its own account primarily to facilitate trades.

The firm formed a close relationship with Banque National de Paris (BNP), a rival of another French bank, Paribas, which acquired Quilter Goodison earlier this year. Ark has temporary premises in BNP's building in the City of London and is using BNP's dealing licence. Ark also has a credit line from BNP, which may be needed to take on large lines of stock, and will be using BNP's settlement services in most European markets.

A total of 22 of Ark's 46 partners and employees have been recruited from Quilter Goodison. They comprised about two thirds of the European equities section of Quilter Goodison's international division which was one of the most successful parts of its business. According to Mr Andrew Boyle, a corporate finance specialist at Quilter who is to become Ark's senior partner: "I think we have left them with enough staff to continue to function."

Ark's other recruits come from a variety of City institutions, including the merchant bank, Morgan Grenfell. Of the total staff, eight are analysts and 10 dealers and salesmen. The team's main strength is in Italian, Spanish and Scandinavian stocks. Its chief clients are expected to be the London branches of Swiss, West German and US banks. The firm will also be dealing in UK stocks and is to apply to join the London Stock Exchange.

In another securities industry reshuffle, announced on Friday, Guinness Peat, the banking and investment group, acquired a specialist stockjobber, S. Jenkins, whose four partners and five employees cover leisure, entertainment and selected stocks on the *Unlisted Securities Market*.

The firm is to be merged with two earlier Guinness Peat acquisitions, the stockbroking firm, Henderson Crosthwaite, and another jobbing firm, White & Cheeseman, which specialises in Australian and some European stocks.

The new cast of characters

By Barry Riley

COUNT DOWN DAYS TO BIG BANG 49

ONCE UPON a time there were clients, brokers and jobbers. The clients could talk to the brokers but not the jobbers. The brokers could talk to both the clients and the jobbers. The jobbers, poor chaps, could not talk to anybody, unless approached by a broker.

In these circumstances, not surprisingly, the brokers within the London Stock Exchange got richer than either the clients or the jobbers. In its later years the old single capacity system was coming under increasing strain, and at any rate at the level of institutional size bargains the roles of brokers and jobbers were often becoming blurred as the brokers sought to put together both sides of a major transaction.

In any case, there was a trend towards specialised roles within broking firms, with salesmen becoming distinct from the dealers who actually handled the bargains with the jobbers, and from the analysts who did the research and were expected to come up with business-generating ideas. Now, with Big Bang, there will be a further development of roles and relationships within securities firms, and indeed between them.

Here is a quick guide to the various different specialisations which will be found — always bearing in mind that many firms are still taking a highly flexible approach, and that it will take time for new conventions to be established in London after October 27.

Salesmen. On the face of it, institutional salesmen will seem to go on much as before. Their job will be to maintain contact with clients, to develop a relationship which ensures that business comes the firm's way, and to know exactly to whom to talk within a fund management organisation when it comes to hitting the buttons in order to unload, say, £380m worth of Boots stock.

The important difference with dual capacity trading, however, will be that a salesman can no longer be relied upon to act only on the client's behalf, because sometimes he may be selling off the firm's own book, or buying to fill the firm's short positions. To clarify this situation, modified roles are proposed.

Agency dealers. The old-time broker will live on, with the specific function of acting unequivocally on the client's behalf. This will be most credible when he is working for a firm which has no market making arm and several firms—the biggest being James Capel—are adopting this strategy within the new marketplace.

Some of the integrated firms, however, will still provide an agency service, perhaps establishing it on a separate floor, or even in a separate building, to underline its independence.

The agency dealer will, for a commission, undertake to check the market and get the best deal for the client. Should he deal only with other firms? Presumably he must deal with his own market maker if he is offering the best price in the market, and perhaps it will be all right if he is equalling the best price in the market. But this is dangerous territory, especially for large size bargains. Many people are waiting to see what kind of conventions are established in the area.

Even with firms which do not act as formal market makers there could be grey areas, because such firms will still be willing at times to take positions as principals. Officially, this will be to facilitate block trades by clients. But presumably the firms will not aim to lose money on such deals, and inevitably the line between agent and principal will be blurred. Again, conventions can be expected to develop.

Sales traders. At the other extreme from the agency dealer is the sales trader, who makes no pretence at independence. He is, in fact, the man who markets the firm's book.

This is the sharp end of the dual capacity securities trading business, and is entirely new to the London Stock Exchange. But many institutional investors have come across it in dealing with foreign securities firms, for instance in New York (and private investors encounter it in dealing with London's over-the-counter licensed dealers).

In general, there should be few problems when sales traders deal with professional institutional investors on a *caveat emptor* basis. Already, many London institutions trade on this basis with firms such as Goldman Sachs in UK equities. Often they appreciate the opportunity to deal in large size.

But even the sleepiest institution is aware that Goldman operates differently from, say, Wood Mackenzie pre-Big Bang. There could be more difficulty when fund managers deal with London firms in circumstances in which relationships have suddenly and subtly changed. London brokers are concerned that their clients have not always properly worked out the implications of Big Bang. If *clients are upset, lasting* damage will be done—and it will not help if it is not the broker's fault.

Traders. Somewhat confusingly, traders are also known as dealers or market makers. They run the firm's books, usually specialising in individual sectors.

Normally the orders will be fed in by the firm's salesmen, or by agency dealers in other firms trading on the basis of prices entered by the traders on the competing market maker pages of the SEAQ system.

There is some controversy over the extent to which traders will deal with *market makers* in other firms. In the gilt-edged market, there certainly will be extensive trading between the 27 primary dealers over the screen-based communications network operated by six *firms of inter-dealer brokers.* There are also moves to set up equity IDBs, but this is bound to be a much more limited system than for gilts.

The newly-drafted Stock Exchange rules coming into effect on October 27 require equity market makers to deal with each other, but only in the size of bargain that they enter on their screens.

This size is likely to be small in the early stages of the new market, as the market makers seek to protect themselves against the possibility that they might be taken advantage of by their competitors. But American experience suggests that such fears may be exaggerated.

In the wonderful new world after Big Bang, everybody will be able to talk to everybody else. But practical considerations may limit this freedom.

Thus, one key area of discussion concerns the access which the investment institutions' own dealers will have to the traders. Such powerful clients are unlikely to want to deal at one remove through a salesman but will want to get a direct answer from the man running the book.

For his part, the trader may welcome direct contact with clients, as a way of getting a better feel for the market. But *his first priorities* must be to give a service to his own salesmen and keep his price on SEAQ under close control.

Unlike the old-style jobber, however, the trader will not have to keep quiet until spoken to. When positions need to be unwound, the sales trader will be close at hand.

Mexico's Institutional Revolutionary Party

After 57 years, the doubts creep in

By David Gardner in Mexico City

ONE OF the most oft-told anecdotes about Mexico's long-ruling Institutional Revolutionary Party (PRI) describes how a departing Russian ambassador raised his glass in a toast to the three institutions in the world he felt sure would survive into the 21st century: the Soviet Communist Party, the Vatican and the PRI.

The PRI is a unique political machine which has held uninterrupted power for 57 years. It is largely responsible for creating modern Mexico, and is so entwined with the fabric of the nation that it is inconceivable to imagine that the country might not be ruled by it.

Yet it is also a party suffering from ideological sclerosis. Its standing among Mexicans is at an all-time low, its politics have been subsumed into the all-powerful bureaucracy it has fostered, and increasingly, since the 1982 financial collapse, it has resorted to ballot-rigging at elections.

Last month, in the bitterly disputed governorship and municipal elections in the vast northern border state of Chihuahua, the PRI once again tampered with the vote to shut out the right-wing National Action Party (PAN), which had mounted perhaps the most serious challenge the ruling party had faced at the polls since 1940.

Correspondents in Chihuahua witnessed clear-cut instances of malpractice, as they had in the governorship contests against the PAN in Sonora and Nuevo Leon states last July.

According to four well-placed PRI members, the Government has relied heavily on its "alchemists," or professional ballot-riggers, ever since the PAN *won a string of major* town halls in the north, including Chihuahua, and the left began to make some headway in the depressed south, in mid-1983.

These sources say the PRI and the Interior Ministry used fraud in state elections in Sinaloa, Baja California, Tamaulipas and Puebla in the last four months of 1983, and in Nuevo Leon, Sonora, San Luis Potosi, Veracruz, Chihuahua and the state of Mexico in 1985.

In July, the PAN, supported in its claims by the independent left, cried foul in Durango, bordering Chihuahua, while last month, a left-wing coalition, backed by PAN testimony, claimed fraud in Juchitan, in Oaxaca state, where the PRI used violence and chicanery to get them out of the town hall in 1983.

The PRI derived its original legitimacy from the 1910 revolution. The party was yoked together from some 1,800 regional factions to "institutionalise" the rule of the victorious revolutionaries, after 20 years during which power struggles were decided either on the battlefield or by an assassin's bullet.

After hiccups in 1929 (the date of its foundation) and 1940, when fraud and coercion were used to keep out dissidents challenging for the presidency, the PRI has provided remarkable stability.

Its formula for success has been nationalism combined with high growth and sporadic attempts to redistribute its proceeds. This has been backed up organisationally by a highly centralised, corporate - like political structure, in which the PRI monopolises all senior offices, controls most patronage, but nevertheless fosters pluralism and rotation of posts within the system. It has usually succeeded in including in its ranks a full political spectrum.

Historically, the PRI is the only real national movement Mexico has had, reaching the whole country, and particularly its rural areas. This spread is rivalled only by the Catholic Church. Mexico's long history of invasions makes nationalism the lay religion. The opposition, by contrast, has been weak, localised and divided.

A tradition of high sustained growth—averaging 6.6 per cent a year between 1940 and 1981—has also been essential in making the regime broadly acceptable. Wealth distribution in Mexico is no less inequitable than in most of Latin America, but successive governments have been careful to provide cushions for the poor through subsidised food and transport, free education and periodic grants of land.

The PRI is divided into three groups: the peasantry, organised labour, and the so-called "popular" sector, covering a rag-bag from bureaucrats and a deliberately cash-starved army, to lottery ticket sellers and beach vendors. The party has already been able to identify, outflank, isolate and sometimes repress dissidence. The 1968 student movement was brought to an abrupt halt by *an army massacre of some 500* protestors during that year's Olympic Games.

By 1977, the PRI's political nose led it to reform the electoral system, giving the opposition 100 proportional representation seats out of 400 in Congress, affecting party control not one whit.

A most plastic image of the PRI's patronage is evident at the headquarters of "Don Fidel" Velasquez, 85-year-old trade union overlord since 1941 and considered the second most powerful man in Mexico after the president. The office is like a mediaeval court, its outer corridors peopled with job-seeking and minor and middle-ranking trade unionists, opening on to a spacious anteroom full of trade union leaders senators and congressmen, and the occasional state governor, all craving an audience with the Mr Velasquez who sits impassive as a statue, gently drawing on a cigar, in the inner sanctum of the office itself. Union backing, which is to say Don Fidel's support, is often a prerequisite for a top job.

"Don Fidel" Velasquez, Mexico's trade union overlord.

The economic adhesive in the package broke apart in 1982 when Mexico, then under the administration of Mr Jose Lopez Portillo, announced it could not meet foreign debts which have since grown to $98bn.

President Miguel de la Madrid succeeded him that year, promising economic renewal through structural reform, and the "moral renewal" of Mexico through political reform and a crackdown on corruption.

There has been appreciable progress in economic reform but at enormous cost to Mexico's workers and peasants. Unemployment has more than doubled to around 17 per cent by trade union estimates, while underemployment affects 40 per cent of the workforce.

Food and transport subsidies have been slashed. The middle-classes have also had their expectations confounded. They, and a new generation of politically assertive businessmen, have helped turn the PAN into a formidable gathering of protest votes.

The consequences of economic mismanagement (itself exacerbated by the lack of real accountability mechanisms) and external shocks, like the oil price collapse, have come to a head just when the PRI's vitality has reached near exhaustion.

The single main reason for the latter is that the party has been bypassed by the bureaucracies as the route to power over the past two decades, inviting the reflection as to whether the PRI is truly a ruling party.

Neither Mr de la Madrid nor his two predecessors had been elected to anything before being selected by the incumbent president and confirmed at the polls. Only two members of the current Cabinet, both recent additions, have ever fought an election. An estimated three-fifths of government appointees were not PRI members at the outset of this six-year administration.

This growth in the power of the bureaucracy has gradually diminished the power of the presidency.

Attempts have been made to remedy this, notably through a timid process of internal democracy in the PRI with the idea of throwing up natural leaders with a popular following and local roots. There have been some successes, but in the main local party bosses and trade union barons have fiercely resisted this threat to their privileges.

But if the PRI has flagged in efforts to revitalise itself, it has also criss-crossed the country trampling on anything which looks like becoming a successful electoral force. Unlike in the past, people are beginning to respond.

In strongly regionalist Chihuahua, what is by far the most broad-based opposition movement the PRI has ever faced has coalesced around the "clean vote" issue. It includes the PAN, four parties from the fractured independent left (Eurocommunist, nationalist Left, Trotskyist, and Social Democratic), the Catholic Church(constitutionally barred from politics), a large part of the private sector, and a raft of civic, professional, student and peasant organisations. The main parties involved, despite their dissimilarity, are now trying to spread the single-issue movement to the rest of the country.

Though probably not more than one in four Mexicans vote for the PRI, once vote inflation is discounted, the party seems complacent. "Fifty years of achievements are not undone in three years of crisis," argues one senior minister. Others strike a more anxious note.

Mr Adrian Lajous, a former deputy Finance Minister who resigned in 1982 at the height of the financial crisis, and since then a witty critic of a régime he has not abandoned, wrote last month in the leading *Mexico City* daily Excelsior, that "with a few more victories like Chihuahua, the PRI would be finished."

Architecture/Colin Amery

Conservation in the Caribbean . . .

West Indian House and Home is the title of the first exhibition to be shown in London of the vernacular architecture of the Caribbean. It has arrived at the Commonwealth Institute, as part of the nationwide series of events, Caribbean Focus '86, and can be seen there until September 28.

The organisers of this excellent small show are the Caribbean Conservation Association based in Bridgetown, Barbados. I visited them earlier this year to learn more about the problem of conserving historic and colonial buildings in a part of the world that is under heavy pressure from tourism. The value of the work of the CCA is that it is concerned with more than the conservation of the cultural heritage, also taking an interest in the vernacular and the natural environment. Miss Jill Sheppard, formerly executive director and now a consultant to the CCA, delivered a paper recently on the subject of architecutre and tourism.

Speaking to a meeting of experts in the Caribbean region on environment and tourism development, she singled out some recent examples of the restoration of historic structures that have come about because of "largely tourist interest." Santo Domingo, San Juan in Puerto Rico and English Harbour in Antigua were just three very successful examples. To ensure a continuation of sympathetic restoration and development there is a need in the wider Caribbean for more regional co-operation, and an understanding of the importance of the care and conservation of the built environment. It is a difficult area, to minimise the impact of mass tourism while needing some of those revenues to develop the area.

The exhibition at the Commonwealth Institute is based on material collected by the architect from Guadeloupe, the late Jack Berthelot, and his assistant Martine Gaumé. Looking at the typical West Indian house in the French, Dutch and English speaking regions of the Caribbean area they point out differences of construction but also the overriding unity of the economy of the basic styles and their common links between construction and cultivation.

It is easy to think of a place like Barbados as simply sandy beaches, luxurious hotels and the endless oiling of white bodies between snorkelling trips. But take any road inland towards the eastern coast and you are in the world of the plantations with their often remarkable houses. Or drive into the centre of Bridgetown and at the Garrison you are in a perfect example of colonial architectural achievement. As the shadows lengthen over the Savannah and the bridge tables are set out in The Club the atmosphere of an ordered inheritance is potent indeed.

St Nicholas Abbey is the oldest plantation house in Barbados —now a much-visited attraction

Barbados is a microcosm of the architectural and conservation problems of the region—the designation of whole areas, like the Garrison, as historic places is an important first step. Now there is an excellent historical map funded by the Barbados Board of Tourism—the basis of future planning for the area.

The two main building types that deserve thorough exploration by any visitor in this island are the plantation houses and the churches.

As the stability of the sugar crop shudders the future of these properties is uncertain and it is possible to experience the curious sight of empty grand houses surrounded by swaying fields of profitless cane. Some of these houses are being purchased and restored as homes in the sun, others may be doomed.

One of the earliest houses on the island, St Nicholas Abbey—a Jacobean manor house—was probably built around 1660. The present owner is a descendant of 19th century planters, and he opens the house to the public and shows the restored outbuildings and old sugar making machinery. Perhaps his best tourist "draw" are the very early films of life in Barbados that are shown in a barn. Colonial life is seen with all its flaws, an important context for the architecture.

Another 17th century house, Drax Hall (not open to the public), is a good example of the plain, strong architecture of the early English settlers. Drax Hall remains in the ownership of the original family. However many of the houses and plantations have regularly changed hands, and often the house and the plantation have separated.

Villa Nova has lost its plantation and was rebuilt after the terrifying hurricane of 1831. With its curved bay on the south front and the wide verandahs it is one of the most beautiful houses in Barbados. It is superbly maintained and open under the Barbados National Trust's Open Houses Programme, which runs from mid-January to April. As striking as the house at Villa Nova is the garden. This was planted with the help of Iris Bannochie, the driving force behind the gloriously situated Andromeda Gardens on the Atlantic coast of the island. Her plants can also be seen, flown in by the Barbados Board of Tourism at the Commonwealth Institute, where they help to emphasise the link between construction and cultivation.

The Anglican churches of Barbados all suffered in the hurricane and so today they form a remarkable group of mid-nineteenth century simple Gothic buildings. They give their names to the districts of the islands and are filled on Sundays by impeccably dressed singing congregations. At St Thomas's the interior is almost Gothic, full of lightly carved wood and simplified pattern book detail. The square towers and churchyards of Barbados remain in the mind as the most incongruous and yet sympathetic buildings of the island.

There are, however, other more recondite areas of architectural pleasure to be had in Barbados. The little chattle houses which were literally the moveable possessions of the plantation worker survive in large numbers. Made of wood, often decorated and colourfully painted they are an intrinsic part of the local vernacular. More sophisticated was the work of the late Oliver Messel who designed several good houses in his version of the Palladian style using the fine local coral stone. He did achieve a very special sort of villa architecture that revived the use of stone carving and adapted simple classical ornament to these relatively modest houses. All of the Messel houses are privately owned and still well maintained. He had an influence on the newer architecture of the island and some of the houses in the beautiful Glitter Bay compound owe a lot to him.

It should be said that much of the new architecture in Barbados (particularly hotels like Glitter Bay and Treasure Beach) is of a very high standard and always beautifully landscaped.

There is a danger of the spread of insensitive development in Bridgetown where the new Central Bank (architect Mervyn Awon working to the 1978 redevelopment plan of Bridgetown worked out by David Gosling of Sheffield) is grossly out of scale and unsympathetic in appearance. It is to date the only piece of government grandiosity.

The work of the Board of Tourism, the National Trust and several government ministries have in the 25 years since independence, done a great deal to ensure that the past is as much an attraction for visitors and residents as the beach in Barbados. The Caribbean Conservation Association shows in its London exhibition that this concern is common to much of the whole area—it is a region rich in fascinating architectural history.

. . . redevelopment in Spitalfields

The Spitalfields Development Group last Friday unveiled their proposals for the redevelopment of the 13 acres of land east of the City of London at present occupied by the Spitalfields fruit and vegetable market. The consortium is made up of four companies, London and Edinburgh Trust plc, Balfour Beatty, County and District Properties and Metropolitan Estates. The architects chosen by this consortium to design this important London development are the large commercial firm of Fitzroy Robinson Partnership working with a Spitalfields based small design practice of MacCormac, Jamieson and Prichard.

Things are not as settled as they may sound. It is anticipated but not yet certain, that Spitalfield Market will close. It is no longer particularly economic—large retailers tend to buy their produce direct from growers.

The market has been in Spitalfields since 1682. The freehold land is owned by the City although it is situated in the London Borough of Tower Hamlets. A recent Parliamentary Report by Sir John Wells MP (Chairman of the Parliamentary Horticultural and Markets Backbench Committee) recommended that the market should move to another East London site.

The Spitalfields Trust, a charity that has done much to save money of the areas historic buildings, seems certain that the presence of the market in Spitalfields is now only very short term.

There are several imponderables. The City could sell the site. The Spitalfields Development Group have offered in the region of £150m for the land. The traders could move. The developers have purchased a site from the British Rail Property Board at Temple Mills, three miles from Spitalfield in the London Borough of Waltham Forest, which is ideal for a new market and will reclaim derelict land. But will Tower Hamlets want so many offices cheek by jowl with some of the worst living conditions in London?

There is not just one developer interested in the site. Rosehaugh Stanhope, who have done a great deal at Broadgate to make the City's expansion to the East workable and architectually attractive, are also preparing a scheme which is yet to be published. C. H. Beazer are also interested. Yet another restraint on the area comes from the pressure of conservation. The market site is surrounded by three conservation areas. In these the scale is mostly domestic, and the whole area is dominated by one of London's greatest 18th century churches, Hawksmoor's Christ Church still magnificently dwarfing streets of 18th century houses.

The design problems for this site are subtle and difficult. There is not much point in trying to make 1.75m square feet of offices look like streets of 18th century houses or to try to hide large office buildings behind existing low scale frontages. What is needed here is a return to the tight street pattern which partially survives, the restoration of the almost vanished Spital Square—real restoration and building in traditional ways—as many open squares as possible and a new park which the area desperately needs.

In architectural terms almost the most important thing for the area, and for London, is that the site is developed by a number of different architects. Broadgate, good though it is, is the wrong sort of approach for a neighbourhood like Spitalfields. I do not feel that the proposals by Fitzroy Robinson and MacCormac have much to offer in the urban design terms. Basically their scheme for the Spitalfields Development Group is an office monster lurking behind some low scale street frontages.

Richard MacCormac is an interesting architect who designed those agreeable rooms for Worcester College, Oxord. But he is not an urban architect. Spitalfields needs care, conservation and integration with its neighbours. Before the City is lured by the thought of a site with office potential possibly up to some £500m they should stand back with Tower Hamlets and see Spitalfields for what it really is: a great opportunity to recover a lost slice of city, a traditional townscape with some of the best 18th century streets in London, that needs a subtle and sensitive link to the more powerful neighbour to the West.

What it does not need is to look like another slice of developers' London that has strayed too far east.

Colin Amery

Tokyo triple bill/Covent Garden

Clement Crisp

It can be said about the Tokyo Ballet's triple bill, which was on view on Thursday, that it shows the company as a well drilled ensemble. Unanimity, neatness were the evident qualities in an evening otherwise depressing. These are not, however, the virtues most needed for *Les Sylphides*, whose precision on this occasion precluded anything of the romantic dreaming, that vaporous drifting into the night air, which is the ideal behind Fokine's choreography. There was an unpleasing orchestration of Chopin's music as accompaniment to a tight, dry account of the dances, and only Chiharu Iwakoshi in the mazurka seemed to escape these confines to suggest the beauties of line and delicate poise which are essentials of the piece.

There followed Jiri Kylian's *Symphony in D*, a ballet which I find so detestable that no performance, however well prepared, can convey any merit to me. Before curtain rise we hear the serenely beautiful and grave opening to Haydn's "Clock" symphony, but then the dancing begins and Kylian's relentless succession of crass jokes about dancing, about the relationship between male and female dancers, fills the stage with chattering fatuities.

The dancers grunt and shout to give point to some of the most brutish moments; not one vulgar trick is neglected to mark the more obvious rhythms, from nodding heads and stamping feet to wriggled bottoms and inane grins. And to compound the felony the last movement is taken from the "Hunt" symphony, some indication of the choreographer's musical sensibilities. It is a vile and unworthy piece, and has the audience chortling with delight.

The final offering is Felix Blaska's *Tam Tam et Percussion*, wherein two drummers labour manfully while a large cast scamper about the stage like the backing group in a Paris revue of the 1960s awaiting the arrival of the star. No star is on hand, so perkiness is all, save for a central duet which is the portentous meat in this unsavoury sandwich. The evening's rewards are as thin as this.

From "Symphony in D"

Fo double bill/Croydon Warehouse

Martin Hoyle

Evidently the Goldoni of our time, Dario Fo seems to provide an inexhaustible supply of comic pieces of all sizes. The Fo/Rame Theatre Project has already presented this double bill of 35 minute *intermezzi*, or possibly descendents of French vaudevilles with success, in Edinburgh. The journey south has apparently shaken the rhythms somewhat, since the first night found them erratically paced, ambling when they should have zoomed, or casually jogging past laugh lines that should have been more pointed.

Strains of Respighi herald *One Was Nude and One Wore Tails*. We plunge straight into a cartoon world of philosophising streetsweepers, bullying officialdom, vivacious tarts and the put-upon common man whose good intentions fail to save him from a drubbing and the loss of both money and job at one fell swoop.

The plot would have appealed to Feydeau, hinging as it does on attempts to clothe the toff, naked but for a topper, surprised by his mistress's husband and hiding in the bin on the sweeper's dustcart. A sort of *perpetuum mobile* results as clothes are exchanged, bargains are haggled over and identities mistaken, from which the author disengages himself with a cheerful shrug as if to say "and so on." The charm and attack of Jemma Churchill's woman of the streets, pert and dimple-kneed, stand out.

The second play is more interesting: absurd, frenetic and generally zany. The mixture of farce and bloodletting, blithe brutality and knockabout fun with uniformed authority bespeaks the homeland of Punch and Judy. *Women Undressed, Bodies to be Despatched* takes place in Francesca's theatrical costume business and revolves round a fiendish plot that sounds like a combination of W. S. Gilbert, the Goons and any exasperated Italian today. The corpses of murder victims are disposed of by the simple expedient of consigning them, deliberately wrongly addressed, to the mercies of the Italian postal system. This guarantees that they will be well and truly lost. Failure to deliver entails the appropriation of the article by the state; and once something is taken over by the state it vanishes into oblivion . . .

Complications abound but are piled on top of one another with remorseless logic, as in all good farce. Simon Usher's direction piles on the madness; a moustachioed lady in 18th-century skirts and wig revealed as a police officer, girls in flimsy underthings toting pistols, an excited provincial in a Bourbon costume turning out to be from Customs and Excise, pop guns that fire mysterious messages, tape recordings exposing the villainness, one twist after the other; all, it seems, because straightforward divorce is impossible in Italy.

Chris Adamson is properly impressive as a policeman maintaining his dignity while dressed as Marie Antoinette; John Cobb's Scots-accented customs officer has an accomplished comic technique faintly reminiscent of Sylvester McCoy —intended as praise; and Anna Ziman's homicidal businesswoman is briskly believable. Only the gunshots, not to mention the sugared almonds that explode when touched by gastric juices (adding new meaning to heartburn), could be louder—but the whole evening as yet lacks hte volubility, speed and overwhelming lunacy that one feels an Italian cast could contribute. Good sets by Marjoke Henrichs, simple and effective. I hope the company hits its stride.

BBC Scottish Symphony/Albert Hall

David Murray

Listening to two Proms' worth of the BBC Scottish Symphony, in the hall on Friday and on Radio 3 on Saturday, gave a mixture of impressions. Their first concernt opened with Haydn's Symphony No. 79, a suave piece, almost too well-made to draw attention to itself — at least in the Albert Hall, where Jerzy Maksymiuk conducted it with unemphatic good taste. Nothing sparkled, and even the Rondo seemed distant and mild; no doubt it sounded better at home.

Ravel's two-hand Concerto in G must certainly have done—and not only because the pianist Kun Woo Paik, a Ravellian as cool as he is stylish, was under-projected for the huge auditorium (we needed glints of wit, and heard only liquid expertise). A colleague who reviewed the concert as broadcast has specially praised the woodwinds: the ingenuity of the BBC engineers knows no limits! Ravel planted notorious little hurdles for solo winds throughout the Concerto, and in the hall we heard an ignominious series of stumbles — in the initial trumpet tune, the octaves in the oboe's mini-cadenza, the Presto sprint for bassoons, and worst of all in the most treasurable passage of the Adagio as woodwinds tiptoe in to join the piano, one by one. There was a frog in every throat, the flute honourably excepted.

Whether that was under-rehearsal or just bad luck, Shostakovich's precocious First Symphony made a quite different effect after the interval. If there was too little bite and snap in the scherzo-writing (wholly characteristic, though the composer was still in his 'teens), nothing else was missed. Lithe pacing, cogent, idiomatic pointing; I particularly admired Maksymiuk's orchestral balance, for his smallish body of strings never faded under Shostakovich's hefty brass. The last movement exercised a formidable grip, with Geoffrey Trabichoff's superbly dramatic solo violin finely supported by the other solo strings.

The merits of the orchestra were more consistently revealed by radio on Saturday. The not very familiar Third Symphony of Sibelius was delivered as freshly and sympathetically as the Shostakovich had been, with the strings in the Allegro moderato showing just the athletic flair one had missed in Haydn and Ravel. The whole score was kept light-footed beyond the common tread, the Andantino especially buoyant and taking. The rhetorical build-up in mid-finale could have used an extra note of conviction—it needs all it can get.

A short new piece by the Scot John Maxwell Geddes, *Voyager* (something about Halley's comet there, not to be detected in the music itself), was easily interesting enough for its length. It begins with a long unison note, fraught with snap-pizzicatos. Soft glissandi slip in, and choked bass grumbles, and wind-phrases overlapping in elusive harmonies. These elements clarify themselves at last in a sort of gnomic triple canon, whereupon the piece evaporates. Neat, and not obviously derivative from anybody.

The BBC SSO concluded with Mendelssohn's "Scottish" Symphony, a routine-ish piece which they enlivened with patriotic fervour. It may have been only imagination that discerned a more than usually Hibernian gurgle in the clarinet tune in the Scherzo. But earlier they had been alert accompanists for Maurice Bourgue in Mozart's Oboe Concerto, and there was no doubt at all about Bourgue's irrepressible imagination. Quite apart from his fabulous breath control and infinitely flexible timbre, the playful fantasy that he lavished on his music—after all these years of playing it—was pure delight: there was a happy surprise or a sly wink in every second phrase, and coruscating cadenzas.

Jazz at UCS

American tenor-saxophonist Spike Robinson appears at University College School, Hampstead, NW3, on Thursday September 25. With him will be an all-British quartet comprising Roy Williams (trombone), Ted Beament (piano), Phil Bates (bass) and Trevor Tomkins (drums).

At the same venue on Thursday October 9 American trumpeter Billy Butterfield will play with a quartet and on October 16 pianist Dick Wellstood will be performing solo in concert. Further information from UCS on (01) 435 2215.

Arts Guide

Music/Monday. Opera and Ballet/Tuesday. Theatre/Wednesday. Exhibitions/Thursday. A selective guide to all the Arts appears each Friday.

Music

September 5–11

WASHINGTON

National Symphony (Concert Hall): Mstislav Rostropovich conducting. Ives, Beethoven, Tchaikovsky (Tue); with Adam Auger, soprano. Weber, Mozart, Mahler (Thur). Kennedy Center (254 3776).

CHICAGO

Ravinia Festival: Anthony Newman organ recital. Widor, Franck, Vierne, J.S. Bach (Wed); Charles Neidich clarinet recital with Elena Ivanina piano. Debussy, Schumann, Reinecke, Berg, Edison Denisov, Stockhausen, Luigi Bassi (Wed); Dawn Upshaw soprano recital, Robert Merfeld piano, Charles Reidich clarinet. Purcell, Debussy, Schubert, Schwantner, Rachmaninov (Thur). Highland Park. (728 4642).

TOKYO

Tokyo Metropolitan Symphony Orchestra conducted by Takashi Asahina: Brahms, Bruckner, Haas. Tokyo Bunka Kaikan (822 0727).

Shizuo Miura (violin) with Paul Ostrovsky, piano. Beethoven, Mendelssohn, Brahms. Tokyo Bunka Kaikan (Wed). (371 1580).

LONDON

Bavarian Radio Symphony Orchestra conducted by Sir Colin Davis. Stravinsky and Beethoven. Royal Albert Hall (Mon). (589 8212).

Bavarian Radio Symphony Orchestra conducted by Sir Colin Davis. Hartmann and Bruckner. Royal Albert Hall (Tue).

BBC Symphony Orchestra conducted by Raymond Leppard with Felicity Lott, soprano and Rodney Friend, violin. Berlioz, Duparc and Brahms. Royal Albert Hall (Wed).

City of Birmingham Symphony Orchestra conducted by Simon Rattle with Philip Fowke, piano. Ravel, Debussy, Rachmaninov and Sibelius. Royal Albert Hall (Thur).

Vladimir Ashkenazy, piano and Lynn Harrell, cello. Beethoven. Royal Festival Hall (Thur). (928 3191).

PARIS

Ensemble Musiques, Christophe Coin, cello and Erich Hobarth, violin: Haydn, Boccherini (Mon 7 pm). Auditorium des Halles, 5 Porte Saint-Eustache.

Helene Jeanney, piano: One hour with Chopin (Tue 6.30 pm). Auditorium des Halles.

All these concerts are part of the Paris Festival Estival. Taped information in English round the clock 4784 9080.

WEST GERMANY

Frankfurt, Alte Oper: London Philharmonic Orchestra, BBC Singers, London Voices and Welsh National Opera Chorus, conducted by Sir Georg Solti. Berlioz La Damnation de Faust with Frederica von Stade, Keith Lewis, Dietrich Fischer-Dieskau und Malcolm King (Tues); Beethoven's 9th with Helen Donath, Sarah Walker, Reiner Goldberg and Hans Sotin (Mon, Wed).

BRUSSELS

Palais des Beaux Arts: Toronto Symphony Orchestra conducted by Andrew Davis with Louis Lortie, piano. Louie, Beethoven, Prokofiev. (Tue); Czech Philharmonic Orchestra conducted by Vaclav Neumann. Mahler, Dvořák (Wed); Liege Philharmonic Orchestra conducted by Pierre Bartholomée with Barbara Hendricks, mezzo soprano: Berlioz (Thur). (512 50 45).

NETHERLANDS

Maastricht, various churches. 1986 Euro-Festival of religious music. Pentacost vocal ensemble. Gregorian chant (Tue); The Voice of the Turtle, Sephardic wedding songs from Bulgaria (Wed); Canticles (Thur). (21 23 00).

VIENNA

Vienna Hofburg Orchestra conducted by Gert Hofbauer. Waltzes and Light Opera. Konzerthaus (72 12 11). (Tue, Thur).

Peter Planyavsky, organ, Dandrieu, Boehm, Bach, Schmidt, Planyavsky. St Stephan's Cathedral (Wed).

MANAGEMENT

In the first of a series on the times of turmoil facing financial institutions, **Peter Montagnon** reports on the global ambitions of Switzerland's largest bank

UBS steers an aggressive course

Banks: The challenge of change

MATHIS Cabiallavetta, executive board member of the Union Bank of Switzerland (UBS), puts it quite bluntly. There are, he says, simply too many banks in the world. "Those without a philosophy, without a purpose and without a strategy are going to have a difficult time."

The revolution in world financial markets spawned by deregulation and the boom in securities business poses a bewildering challenge for management in banking today. How each institution copes could set the seal on its long term future, but that means that decisions have to be taken now in an uncertain and changing world.

UBS itself came relatively late to international business. It has been present in London only since 1967 and has been established for only 11 years in New York. Over the last two or three years, however, it has demonstrated a track record which makes it one of the most aggressive international banks anywhere, and helped shake off the devious image under which Swiss banking has traditionally laboured.

Starting with the surprise *purchase of UK stockbrokers* Phillips & Drew begun in 1984 and completed for an undisclosed sum earlier this year, UBS has begun to make a splash.

Last year it outraged many of its competitors in the Eurobond market by bidding aggressively for new issue mandates to boost its market share. It also lured Peter Engstrom, a Euromarket celebrity and a noted expert in floating rate notes, away from his position at the head of Sweden's National Debt Office, and this summer it became the first foreign bank to lead issues on the New York bond market with deals for Allied Signal and Transamerica Financial.

Underlying these moves is a carefully planned strategy which betrays the bank's military traditions. Most of its senior executives are high ranking officers in the Swiss army, and its foray into international markets has been planned with all the precision and care of a military tactician.

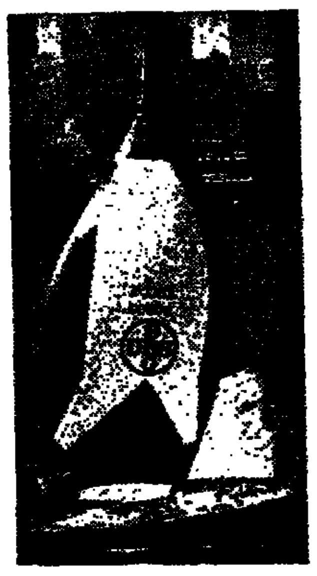
UBS starts out from the perspective that its room for expansion within Switzerland's saturated banking market is limited. Already more than half of its business is foreign, and the only opportunities for expansion lie in the international arena. That means embracing head-on the growing trend towards securitisation of banking business — the process whereby a bank's loans are being replaced by negotiable securities issued by its customers.

Though it has acquired Deutsche Laenderbank from West Germany's Dresdner Bank and obtained a merchant banking licence in Australia, UBS sees the financial world of tomorrow as gravitating to three main centres, one in each time zone. These are New York, London and Tokyo, and in keeping with the Swiss tradition of universal banking, it wants to offer a full range of services in each of them.

That may look simple on paper, especially since the bank has chosen to limit its international business to the wholesale market rather than launching itself into the retail sector. In practice it is rather difficult partly because of the need to digest a rapid succession of changes and partly because of the organisational problems thrown up by the separation of commercial and investment banking that still exists in many countries, notably the US.

In London, for example, UBS now operates a cumbersome three-legged structure comprising a branch which does commercial banking as well as foreign exchange and money market trading; UBS (Securities), which concentrates on international investment banking, and Phillips & Drew on the domestic side.

In New York UBS operates both a large commercial branch and an investment banking subsidiary which plans to become a primary dealer in US Government bonds, but by common consent of its senior executives it is Tokyo that offers the toughest challenge.



The ocean racer UBS Switzerland (*right*) was the fastest overall boat in the Whitbread Round-the-World race. But will UBS itself stand the pace in world financial markets? According to Mathis Cabiallavetta (above) there are simply too many banks in the world

Says Cabiallavetta: "Tokyo is the most difficult place. Either you succeed or you get out. There is no middle road, and if you do it right you are incurring big costs."

Part of the problem is caused by the fluid structure of the Japanese market as it embarks on its own process of deregulation, part is one of language and culture. Ulrich Grete, the tetchy but razor-sharp senior vice president in charge of capital market financing, does not mince his words. "As a central European you might just about be able to understand the thinking of the US Securities and Exchange Commission," he says, "but you may not be able to understand the thinking of the chairman of Nomura (Securities)."

To help it overcome this challenge UBS has hired its own Japanese adviser, Hisashi Kawahara, formerly a director of Yamaichi Securities. But it has also moved fast to tap the new opportunities on offer. It was the ninth foreign bank to obtain a trust banking licence, which will allow it to do investment management in Tokyo. This was after the authorities initially said that only eight such licences would be granted.

At the moment no one quite knows how profitable these operations will be. The Tokyo operation is still in its infancy and the outlook in London is clouded by the imminent Big Bang and all the consequences that will follow from Stock Exchange deregulation.

On paper UBS already has structures in place that allow a high degree of synergy. Cabiallavetta explains that in London, for example, the branch may identify a financing need from one of its customers. That need may be for a Eurocommercial paper programme which would be set in place by UBS (Securities) and the paper itself might well be sold to investors who are clients of Philips & Drew.

Yet that presupposes a high degree of co-ordination, he says. Moreover it also implies a change in culture which UBS has to impose at a time when its organisation is expanding rapidly both in terms of numbers of staff and the type of work they do. At the end of 1983 staff employed at UBS (Securities) in London was only 30. Now the total is 190 and by the end of next year it will be 300.

Rudolf Mueller, senior vice president responsible for securities trading worldwide, insists that cultural change is not a matter of compulsion or revolution, but an organic one which is not disruptive. It will also take a long time to complete. This structure, while cumbersome, will develop in the years ahead.

UBS management claims that it has managed to avoid the problems of other commercial banks in maintaining the motivation of its corporate lending officers. In other banks tales of woe abound as commercial loan officers see the ground cut from under their feet by their high-flying investment banking colleagues.

However, Cabiallavetta lays great stress on the need to nurture commercial banking as an activity that complements the modern range of investment banking services. He believes that the top ranking corporate clients with which UBS deals want to maintain close relationships with their bankers. That means they need contact with both loan officers who maintain this relationship as well as specialists who make creative suggestions.

"You can't find this in one person. You need them all," he says. "It's a question of management to get the interaction of the three prongs—treasury, corporate and investment banking. No corporate banker should feel frustrated."

Besides, UBS is uncertain about how permanent today's trend towards securitisation will be. Warning that it is easy to sell securities into a rising market, Cabiallavetta says that the day may come when the last takers of securities have disappeared. "Today it is not fashionable to believe that there will always be a role for a commercial bank. I believe securitisation is here to stay, but the degree can be debated."

Nonetheless the main thrust of UBS's international expansion is in the investment banking area, and this is where it is now having to absorb most of its new employees. That involves both an attempt to maintain the market's identification of the bank with Switzerland through a careful process of image building, training and dialogue as well as learning to delegate considerable freedom to the management of its units abroad.

Though it is responsible for the overall strategy and pulls the purse strings, head office management does not seek to interfere unnecessarily. "The worst thing we can do is take a highly successful organisation like Phillips & Drew and put it in a straightjacket," says Cabiallavetta.

A measure of its success in personnel management is that UBS rarely loses employees or whole teams of dealers in the way suffered by some other large banks. Recently one of its top foreign exchange dealers in New York was lured away to a highly lucrative post at Renault Finance, but by and large this is an isolated occurrence, despite the fact that UBS is highly reluctant to offer the kind of extravagant bonus system common at its competitors. It is under increasing pressure to conform to market norms in this regard, but one condition of any such scheme must be a low base salary so that fixed costs are kept under control and any bonus actually reflects performance, it believes.

Nor does UBS go in for hiring whole teams on a grandiose scale. "In a team," says Mueller, "there is always at least one lemon." The bank prefers to hire individuals and structure their careers carefully within the organisation so as to ensure a high degree of commitment.

So where does all this leave UBS in today's international market-place? It remains weak in certain key sectors of the international capital markets such as floating rate notes and D-mark bonds where its competitor Credit Suisse First Boston has a strong edge. Nor does it necessarily aspire to dominate the league tables of the international bond markets.

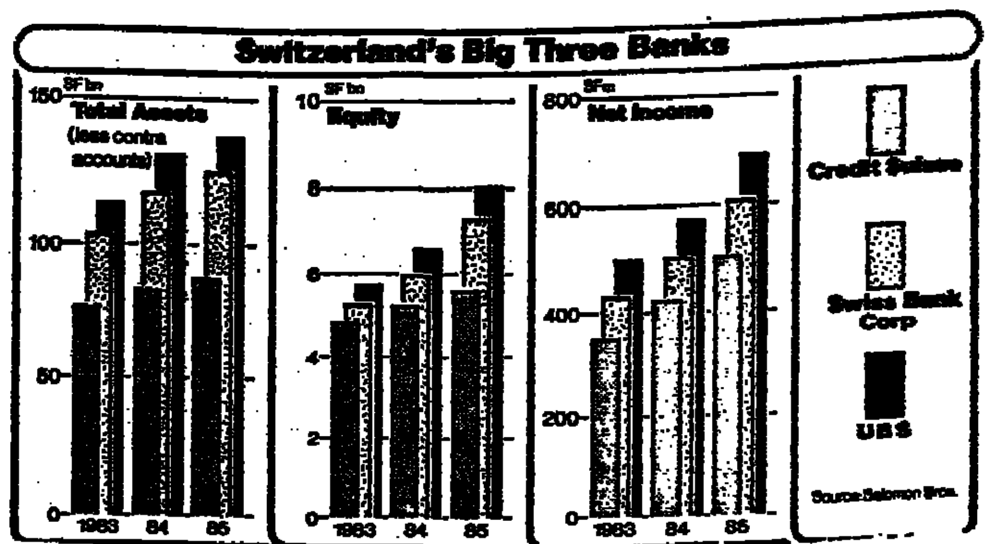
Grete says that last year's flurry of Eurobond lead managements was carefully timed to take account of a rising market. As prices improved the bonds could be sold at a profit. Overall primary market business must make a profit, although it is also important for a bank to demonstrate its ability to lead issues. "If you do not do that you will move away from a very important, very specific market segment and in fixed-income paper you will lose the chance of playing a major role as a market-maker."

More important still is the fact that UBS aims to establish an ability to distribute securities in a wide range of markets. Its Transamerica and Allied Signal issues, for example, were sold entirely in the US without reliance on the bank's own placing power with its customers in Switzerland.

UBS is now set on developing its ability to place securities with a full range of international investing institutions — such institutional placing power is incidentally one of the strengths of Phillips and Drew. In the process its traditional dependence on the Swiss portfolio customer should diminish in relative importance.

That is perhaps the biggest cultural change of all. A new generation of managers at Switzerland's largest bank is realising that the old mystique of Switzerland based on bank secrecy and its role as a haven for flight capital has faded. Today it must go out and meet the competition on equal terms. The days of Paul Erdman's best selling chronicle of Swiss financial intrigue, "Billion dollar killing," are well and truly over.

The next article in this series, on Drexel Burnham Lambert, will appear on September 22.



UNION BANK of Switzerland is the largest of Switzerland's big three banks, with net income in 1985 of SFr 693m ($282m) and total assets as of last December of SFr 129.5bn.

But it has also been slower than its main competitors, Swiss Bank Corporation and Credit Suisse, in expanding abroad.

Founded in 1912 following a merger between Bank in Winterthur and Toggenburger Bank, the bank has always had its roots in the German-speaking regions of eastern Switzerland, and still operates the country's largest domestic branch network.

Corporate goals and policy principles are established by the board of directors, chaired since 1980 by Dr Robert Holzach, while an 11-member executive board headed by Dr Nikolaus Senn is responsible for the day-to-day operation of the bank. Foreign employees could not aspire to a seat on this board. Its working language is Swiss German, normally indecipherable to outsiders.

Unlike Credit Suisse which teamed up with First Boston of the US to spearhead its activities in the international capital markets, UBS has chosen either to go it alone or through a policy of acquisition, having announced the purchase of UK stockbrokers Phillips and Drew in 1984.

Now it aims to offer a full range of wholesale services in every major world market. This does not, however, mean reaching a dominant position everywhere. Says Ulrich Grete, senior vice president in charge of capital markets financing: "It would be ridiculous to try, in a couple of years, to reach in Japan the same position as Nomura. But we should be able to play an important role out of a relatively large number of countries or regions."

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FINANCIAL TIMES SURVEY

Monday September 8 1986

Gold and Precious Metals

The overall outlook remains cautious despite intense activity, particularly in the buying of platinum, sparked off by speculation about a possible disruption of South African supplies

Something to celebrate

By Stefan Wagstyl

A FEW HECTIC days' trading do not make a bull market But precious metals' traders at last have something to celebrate. After sitting at their desks beside quiet telephones for months on end watching prices slide slowly downwards, the markets have this year erupted in sporadic bursts of activity.

On the odd day — January 16 was one, August 11 another — trading was so lively that dealers drew heady comparisons with the metal markets boom of 1980-81. Where inflation was once the trigger which set the market moving, now it is events in South Africa with speculators concentrating on platinum in the belief that the political crisis in the world's biggest precious metals mining country might lead to a break in supplies.

It is as well to have a cautious perspective on all this activity. There has been a stunning increase in platinum prices —from a low last year of $237 an ounce to over $600—and trading volume in a small and volatile market has grown apace. But the net gain in gold prices has been far more modest—from a low last February of $284.25 to $385 an ounce at the end of August, at a time when the US dollar has fallen sharply.

For all the talk of renewed investor interest, volume on the New York Commodity Exchange, the world's largest gold futures market, was down in the first seven months of this year compared with 1985.

Silver, meanwhile, has failed to respond to the rallies in gold and platinum, its performance calling into question its status as a precious metal.

The nagging fear remains that the nervous rally in US dollar prices which began in 1985 and gathered pace this year could just be a brief break in the decline in precious metals which began in 1980. Could the fall really be reversed at a time when the financial conditions for investing in metals appear little changed?

Nevertheless, for the moment traders are holding their breath. They say the reports from Tokyo, Hong Kong, Zurich, London and New York are the same—investors are buying metal again. Or at least some of them are, some of the time.

Producers are confident that whatever happens in the rest of the year, average prices for 1986 are likely to be a good deal higher than 1985. South African mining companies, which are celebrating the centenary of the discovery of gold at Johannesburg, are set for another year of record profits, with the help of the decline in the rand.

The climb in platinum prices has tracked the rise in the political temperature in South Africa almost exactly, with investors responding to events within the country and in the international arena.

There are good grounds for believing that a break in South African supplies (which account for some 85 per cent of the total) could cause serious difficulties in certain industries which rely on platinum for use in gas-scrubbing catalytic converters. Unlike gold, which is mostly made into jewellery, some two-thirds of platinum production is bought by industrial companies.

However, there is little sign from South Africa that any interruption to supplies is probable. Contrary to some investors' beliefs, the South African Government looks unlikely to react to any economic sanctions imposed by western countries by retaliating with restrictions on precious metal exports. South Africa needs the revenue too badly.

In its advance, platinum has raced past gold to trade at a premium to gold of more than $390 an ounce after spending most of the 1980s at a discount to it.

The widening gap has exerted some upward pressure on gold, especially as South Africa supplies some 55 per cent of the western world's metal. Interest in platinum seems to have spilled over into gold for two reasons—the metals have historically moved in tandem, and platinum is a small market to absorb large amounts of money quickly.

However, gold prices have acquired a modest momentum of their own. They have been boosted by some astonishingly large purchases by the Japanese Government, which took the market by surprise in January by buying some 220 tonnes of bullion for the minting of a coin to mark the 60th anniversary of the accession of Emperor Hirohito. The purchase has been followed by reports that Japan may buy a further 100 tonnes of metal to increase the size of the issue.

Nevertheless, in previous years such buying would have caused much more of a stir. Indeed one London bullion house said in a report written just before the August rally that the gold market was "passing through one of the quietest and most dismal periods for 10 to 15 years."

The case against a sustained shift of funds into gold remains very convincing. Japanese purchases notwithstanding, there is no sign of any shortage of gold in the market. Western world gold mine production has been rising in recent years from 950 tonnes in 1980 to 1200 tonnes last year. A total of 1400 tonnes is forecast by 1990.

The Soviet Union does not disclose its plans but is unlikely to cut back on the estimated 250 tonnes it sold to the West last year, given sharply falling revenues from oil and gas exports.

Demand has been increasingly dominated by the jewellery industry, which accounted for 900 tonnes last year, or some 75 per cent of mine output. But the big question here is: can jewellers' purchases grow fast enough to keep pace with the increase in supply, particularly if an economic recession hits a major consumer market, depressing spending on luxury goods?

If jewellers' buying slows down, investors will be left to take up the slack. Investors have indeed been buying bullion on broadly-based financial grounds, which look somewhat stronger than a year ago.

The performance of equity and bond markets has looked uncertain in recent months. The New York, Tokyo and London stock markets have fallen from record highs reached earlier in the year. Some investors are concerned about the possibility that the bloated US budget deficit might eventually lead to a resurgence in inflation, which would make commodity holdings more attractive.

There is some political uncertainty about the future of US economic policy as the next presidential election, due in 1988, drawns nearer.

However, other investors remain convinced by the weight of arguments against buying gold, believing that for as long as real interest rates stay high and inflation stays low, it will continue to be expensive to hold non-income yielding assets for any length of time. On this argument, which has been reinforced by the fall in oil prices, even investors prepared to put money into precious metals, may be happy to keep it there only for a short time.

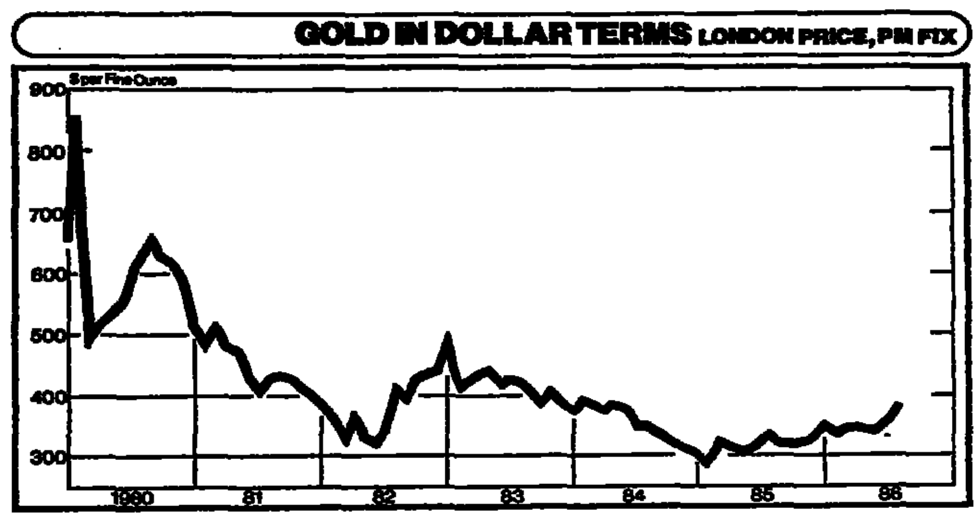
It is important to see the recent performance of gold in the perspective of currency movements. In the early 1980s the decline in gold mirrored the increase in the US dollar's international value. But for most of the past 18 months, bullion has failed to react by bouncing back in the response to the fall in the dollar.

In terms of the yen, the Deutschmark and the pound, gold continued to fall until the middle of this year, as the chart of the London price expressed in Special Drawing Rights shows. In currency-adjusted terms gold has some way to go before regaining the ground lost in 1985, let alone previous years.

The precious metal traders have learnt to live with lean times, cutting costs and staff as income has fallen. Companies with diversified interests have concentrated on more profitable markets, especially bonds and equities. Others have had to fight hard to avoid falling profitability.

Nevertheless, as the links between different financial markets around the world have become closer so some companies have thought it worthwhile to take and maintain positions in the gold markets. In London, which remains the biggest wholesale bullion trading centre, the five old-established members of the London Gold Market have been joined by six associates, five of them US-owned.

Mr Robert Guy, chairman of the London Gold Market and a director of N. M. Rothschild, the merchant bank, says that the market has become more competitive. Rally or no rally it is unlikely to get any easier.



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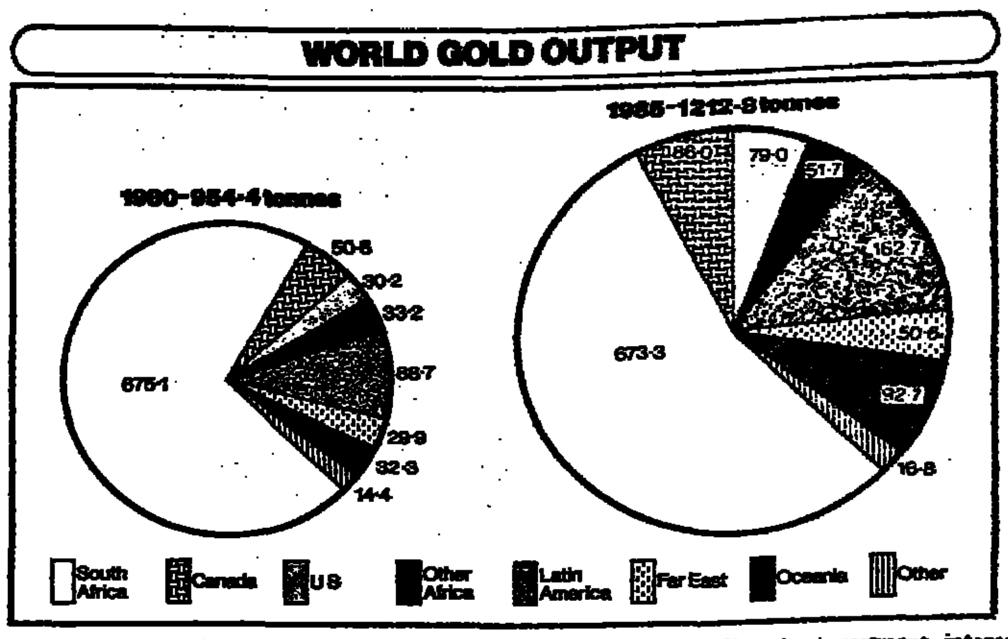
Gold supply

South African share slips



FROM HEMLO, in Canada, to Ok Tedi, Papua New Guinea, and Kidston, Australia, a new generation of gold mines has started production. They are only the outstanding examples of an increase in world gold output which has been gathering pace in the 1980s.

Western mine output has risen from 950 tonnes in 1980 to 1,200 tonnes last year, according to Consolidated Gold Fields. As more proven deposits are developed, the total is expected to rise to about 1,400 tonnes by the end of the decade.

The continuing dominance of South African producers, mining some 55 per cent of the West's gold from deep long-life mines, will not be challenged in the foreseeable future. They are making record profits in rand terms and spending unprecedented amounts on mine development—22 per cent more in 1986 than last year.

In February, Johannesburg Consolidated Investment started work on the new Joel mine. But South Africa's share of output has slipped as production in other western countries has risen by 80 per cent since 1980.

In the US, Canada, Australia, Brazil, the Philippines and elsewhere, mining companies have turned away from depressed base metals to gold, where production is still very profitable despite the decline in prices in the 1980s.

Consolidated Gold Fields estimates that in 1984 the average cost of production of western mines was $254 an ounce, including depreciation. South African producers were the most secure with costs of $240 an ounce, but companies bringing new mines on stream have also been careful to keep their costs at the bottom end of the range.

At Placer Development, the Canadian company which is the biggest shareholder in Kidston, Australia's largest mine, Mr John Racich, chief financial officer, says that while the company cannot control the gold price it can control costs.

This combination of increasing supply and high margins has prompted several analysts to be very cautious about the outlook for gold prices. In a recent report, Metals and Minerals Research Services, a London company, forecast a decline in gold prices in real terms of perhaps 20 per cent by 1990.

Whether this turns out to be correct depends crucially on the prospects for demand which are much more difficult to predict than supply because of the long lead times involved in bringing mines to production.

According to Shearson Lehman Brothers, the commodity traders, the surplus of supply over demand — that is gold which is left for investors to buy after accounting for metal bought for jewellery, industry, coins and government stocks—has fallen from 222 tonnes in 1984 to 39 tonnes this year and is likely to fall further this year.

However, 1986 demand has been bolstered by the exceptional purchase of some 220 tonnes of bullion by the Japanese Government for the minting of a coin to mark the 60th anniversary of the accession of Emperor Hirohito. Japan is reported to be buying up to 100 tonnes more metal to increase the size of the issue.

These official purchases have to be added to extraordinarily strong demand for gold jewellery in Japan, which could take total Japanese gold buying this year to 500 tonnes or some 40 per cent of western mine production.

As Mr Timothy Green, a consultant with Consolidated Gold Fields, told an industry conference in London in June, Japan has been a veritable sponge for gold in 1985 and early 1986. "What happens to the price if this does not continue?"

Other countries might step into the breach. But sales have weakened in other important markets—in the US following the depreciation of the dollar and in the Middle East after the fall in oil prices.

With the decline in investment buying since the early 1980s, jewellery has become the cornerstone of the gold market, accounting for some 900 tonnes last year. But after two years of strong growth, sales are slipping this year. Mr Green estimated that gold jewellery making in Italy, the largest producer, was down 10 to 15 per cent this year.

The number of countries minting gold coins might suggest that this is a lively market. But the Canadian Maple Leaf, the Australian Nugget, and the planned US Eagle, are only filling the gap left by the Krugerrand. The market as a whole has shrunk with the decline in investment interest in gold.

Governments added some 135 tonnes to their official holdings last year according to Consolidated Gold Fields. But there is little prospect of a return to sustained government buying of bullion as the importance of gold has declined in international monetary affairs in the past two decades.

Other markets for gold—electronics and dentistry for example — are too small to absorb more than a small amount of the increase in mine production.

More metal will therefore be available to investors. Whether they will buy will not only depend on the outlook for supply and demand but also for the whole range of factors influencing investment decisions.

Gold mining companies tend to be cautious about the outlook for prices, many of them basing their public comments (if not their internal calculations) on slowly-rising price projections. Mr Tom Main, assistant general manager of the Chamber of Mines of South Africa, earlier this year forecast a moderate price rise but said: "I believe that world economic conditions of sluggish growth, low inflation and relatively low interest rates accompanied by a declining dollar and low oil prices are not especially propitious for a bull market for gold."

More optimistic forecasters will inevitably take heart from last month's rally.

Stefan Wagstyl

South Africa's black miners

Discontent boils over

GOLD REEF CITY, a collection of reconstructed turn-of-the-century houses, shops and hotels, is fast becoming one of Johannesburg's most popular tourist spots. The display, assembled by the Gold mining industry on a site only a few miles from the smoggy sprawl of Soweto, comes complete with guides in period costumes, exhibitions of the geology and technology of gold, trips down an old mine shaft and regular "tribal" dancing displays by black men in wellington boots and feathers.

It is a sanitised version of history which aptly reflects the impression most gold mining company executives have of their industry's contribution to South Africa. From Primary school onwards, white South African's attention is focused on gold's importance to their country.

They are told that South Africa's 50 or so mines produce more than half of the non-communist world's newly-mined gold, that the development of the industry spurred the construction of Africa's most extensive railway system, spawned the great industrial conurbation surrounding centenarian Johannesburg, led to other mining activity and provided the base for the continent's highest per capita living standards.

South Africa's official histories are filled with prospectors, entrepreneurs and millionaires. Of the millions of black men who physically dug the gold, there is rarely a mention. Yet gold has played as central a role in black South Africa's history as it has in white history. The forces gold unleashed in South Africa are at the root of black discontent.

These days most mining house executives regularly criticise apartheid and its paraphernalia. But many black people believe liberalism sits ill on the shoulders of the mining industry. Most of the legislation which has developed into the present legal apparatus of apartheid was designed for the benefit of the gold mines and principally to ensure a continuous and adequate supply of black labour.

In South Africa, mine owners used their considerable influence on successive governments to introduce legislation aimed at procuring necessary labour at the lowest cost. The principal aim of hut and poll taxes was to push black peasant farmers towards the mines.

Mine owners had the workers they needed but their next problem was to keep them. Most blacks, understandably, quit the mines to return to their land as soon as they had saved enough to pay their taxes.

The problem of keeping men on the mines was solved by the extension to the Transvaal of the Cape's Masters and Servants Act. Ostensibly it provided protection for the employee — in practice it meant that black workers were compelled to enter into one-sided labour contracts which grew progressively longer.

If a man left the mine before his contract was up, he risked jail. Nevertheless workers regularly and frequently broke their contracts, to which successive governments responded with a series of pass laws, controlling the movement and residence of black South Africans in their own country. Over the years hundreds of thousands of black South Africans have passed in dismal procession through their country's courts and prisons after falling foul of the pass laws. It has bred a complete disdain for the legal system.

Dispossessing blacks of land was the next means used to induce them to work in the mines. The 1913 division of the land was finely calculated. Blacks were given just about enough to enable families to eke out a subsistence whilst the men were away at the mines.

The mine owners, then as now, were reluctant to bear the cost of housing black families along with their men. They knew too, that black miners were better controlled and more cheaply fed and housed in compounds. Today the Chamber of Mines frequently points out that black workers receive full board and lodging in what are now called hostels. Admittedly many of these hostels are far more comfortable than were many of the old compounds, but they are still an integral part of the strategy for keeping down costs.

Job reservation discriminating against blacks has slowly disappeared in South Africa—it remains only in the mining industry. The Government has promised that this year it will repeal the statutes which have reserved skilled mining jobs for whites since 1911. White miners will once again have to confront their justifiable fear that mine owners will opt for cheaper, black labour.

Just as the attitudes of British coal miners are shaped by memories of the dole queues of the 1930s, so are the attitudes of black South African miners shaped by the inferior status to which they have been relegated for decades. Today employees have considerable difficulty countering the linear argument that capitalism equates with gold mining which equates with exploitation.

They have to argue against the fact that there are no black mine managers, that white miners' wages are five times those of blacks, that proportionately more blacks than whites have died in mine accidents in each of the past 24 years, that whites enjoy pension and service benefits which are far superior to those of their black colleagues and that none of the country's mining houses has a black director.

Since black unionisation became legal, these factors have helped unite black miners.

The changes to the apartheid system being demanded by blacks and the ruling National Party's international and domestic critics would necessitate a total reworking of the structure of the gold mining industry as it has existed in South Africa for the past 100 years. Small wonder then that the mining industry is eager to exert some influence on those who are likely to dictate what those changes will be.

The outlook for continuation of the mining industry's status quo is bleak. As ANC leader Oliver Tambo told Anglo American chairman Gavin Relly last year, the gold mining industry will be an early target for nationalisation. The next 100 years could be very different down the mines.

Jim Jones

Gold and Precious Metals 3

Platinum

The speculators move in

"IT'S GOT to the point where people are buying just because they expect the price to go up—and therefore the price continues to go up."

That comment, from a bemused executive of one of the leading platinum marketing companies, highlights the speculative fever which has been gripping the market for platinum group metals—and especially that for platinum itself—over the past few months.

Platinum prices have nearly trebled since March 1985. In August 1986 alone, they rose by well over $160 to reach $620 an ounce by the end of the month, the highest level since January 1981.

On August 28, Impala Platinum, South Africa's second largest producer, was moved to raise its quota price by a full $125 to $600 an ounce. This was the first time this indicator had moved in exactly six years, and a sure sign that Impala, at least, expected prices to stay strong.

The other platinum group metals followed along at a lesser pace. Palladium, which was bumping around the $100-an-ounce level at the beginning of the year, was up to $140 by the end of August. Rhodium was comfortably above $1,200 an ounce, compared with levels around $1,000 for most of 1985.

Almost as significant was the relationship between platinum and gold. For most of the early 1980s, the platinum price was languishing at a substantial discount to gold; by the end of August, it was at a premium of more than $230 — and platinum was being universally described as the prime mover of the two metals, pulling gold up in its wake.

The markets for all three metals are normally quite thin, so a modest level of demand can create quite wild swings in price. This fact has also tended to make them a conspicuous target for speculation—in the case of platinum, never more so than in the past few weeks.

Volume in the platinum futures contract on the New York Mercantile Exchange has shot up to record levels. For example, on one day in August, more than 850,000 ounces of platinum "changed hands" in the futures market paper-chase; that is equivalent to nearly one-third of total world production of the metal.

European dealers specialising in sales of physical platinum metal were dumbfounded—and many, even in the Nymex market itself, believed in late August that the rally was going too far.

"Platinum is the flavour of the month," said Mr Brian Nathan, managing director of Ayrton Metals, a London-based platinum marketing company. "It is a speculative play that is exciting the market. But the power of the American speculator is enormous."

Speculation it may have been, but traders were swift to advance all sorts of more or less plausible explanations for the price movement. All of them focused on South Africa, source of around 85 per cent of the non-Communist world's platinum supplies, 57 per cent of its palladium and between 70 and 80 per cent of its rhodium.

The increasing political and racial unrest in the Republic racial unrest in the republic had, in fact been buoying up the platinum market in fits and starts since the summer of 1985. But this year, the whole issue was looked at with new urgency.

The first theory, which began to circulate in July as Western governments came under increasing pressure to impose sanctions on South Africa, was that Pretoria might choose to withhold supplies of so-called "strategic metals" including platinum as a counter-sanction.

It was not an idea which appeared to have any basis in fact, but the market rose sharply on the rumour, and then dipped when South African officials came forth with a routine denial.

None the less, this flurry of excitement served to highlight a more basic truth: the West is overwhelmingly, some would say perilously, dependent on one supplier for the bulk of its platinum and rhodium, and that supplier is going through a phase of unprecedented political uncertainty. Even in the case of palladium, two suppliers — South Africa and the Soviet Union—account for nearly 90 per cent of sales.

What is more, there was visible evidence earlier this year of the potential vulnerability of platinum supplies from South Africa. Impala, part of South Africa's Gencor mining group, was hit by a strike in January, and dismissed about two-thirds of its largely black workforce as a result.

Although Impala has not detailed how it was affected by the strike, it is known to have bought metal in the open market in order to fulfil its contractual obligations, and analysts believe that it suffered a significant drop in production which it has not been able to recoup later in the year. One estimate suggested that it might lose up to 300,000 ounces of output this year — about one third of total output.

So specific concern about the possibility of South African counter-sanctions has been superseded among traders by a generalised feeling of unease about the political situation in the republic. Any new explosion of violence — no matter how far from the platinum mines—has served to ignite sentiment in the platinum market in recent weeks.

But there is another, still more fundamental factor underlying the present platinum boom. This is the expectation that supplies of the metal are going to look increasingly tight over the next couple of years.

According to Johnson Matthey, which acts as marketing agent for Rustenburg of South Africa, the world's largest platinum mining company, Western demand for platinum outstripped supply in 1985 for the first time since the last price boom ended in 1981, and was expected to do so again this year.

The forecasts are generally endorsed by other analysts. Credit Suisse, the Zurich bank and precious metals dealer, believes that demand for both platinum and palladium will continue to exceed supply into 1987.

On the one hand, platinum and rhodium are generally in increasing demand for use in pollution control devices, such as catalytic convertors fitted to cars. These are now standard in the US, and are being phased in in Europe over the next few years.

Johnson Matthey expects demand in Europe to start moving strongly upwards in 1989 as a result. There is little scope for substituting other materials for platinum group metals in their industrial uses—though high prices could encourage increased recycling of them.

Against that, there has been a sharp decline in Japanese purchases of platinum this year. Japan is the largest single importer of the metal, largely for use in jewellery, but its imports have dropped by around 30 per cent this year from their record level in 1985—probably because of high prices.

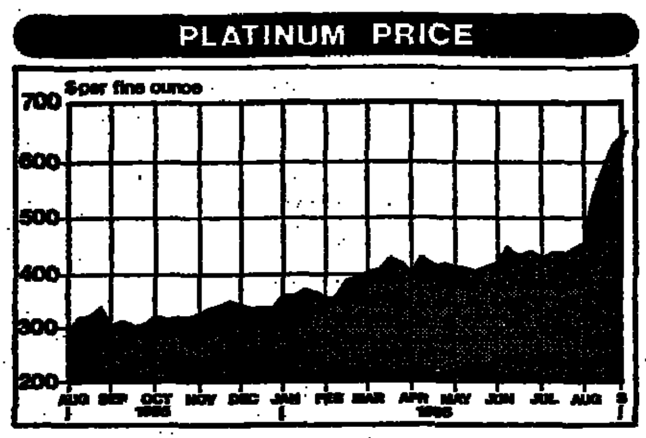
On the supply side, South Africa's two big producers are probably working to full capacity at present—leaving aside the troubles at Impala. Analysts believe they are not holding large stocks.

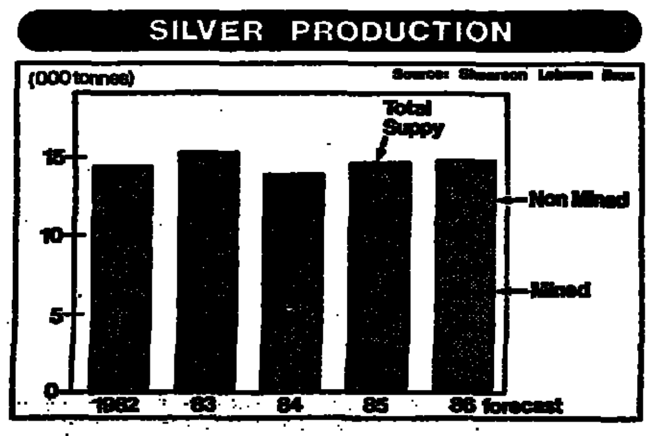
Large deposits of platinum group metals—which all occur together though in varying proportions — are few and far between outside South Africa. Canada produces a modest amount, and a new mine—producing more palladium than platinum—is expected to come on stream at Stillwater in the US in the middle of next year.

South Africa's reserves of platinum group metals, by contrast, are immense.

Although Consolidated Gold Fields of South Africa is currently planning to open a new platinum mine, there is no sign of a major upsurge in the republic's metal output in the near future. Opening a platinum mine is a very expensive business, because the deposits are buried exceptionally deep.

Andrew Gowers





Silver

Surplus keeps prices low

NOTHING COULD have illustrated the debilitating lethargy afflicting the silver market more graphically than the events of the past few weeks.

While platinum sky-rocketed in August and gold trailed along in its slipstream, silver remained firmly stuck to the ground. The platinum price has risen from lows around $250 an ounce recorded in March of last year to highs above $630; gold has gone from below $300 an ounce to nearly $400.

And silver? Between March 1985 and August 1986, it declined from above $5.60 an ounce to range around $5.15 but rose suddenly last week to $5.40. Its average price in 1985 was already 25 per cent lower than in the previous year; the level for the whole of 1986 seemed certain to be lower still. And the ratio between the silver and gold price reached 1:74 by the end of August, its highest level for as long as most people in the market can remember.

Once silver was widely accepted as a member of the precious metals family, moving in parallel with the gold price and responsive to investor sentiment in the same way as the yellow metal. Now it is a pretty widespread, if not universal, conclusion that silver is little more than just another industrial metal—ruled by the vicissitudes of supply and demand, and faced at present with a depressing glut of supplies.

The silver boom of 1979 and 1980, when speculative buying—including the notorious attempts by the Hunt brothers of Texas to corner the market—drove prices up to $50 an ounce, seems a distant part of history. Even the news last year that the Hunts had disposed of all their silver stocks only caused a brief flurry in the market.

There is one obvious reason why silver has been almost immune from the excitements affecting gold and the platinum group metals: South Africa—in contrast to its dominant position as a supplier in those markets—has a neglibile position in silver.

Until the South African troubles came along in 1985 to awaken interest in platinum and gold, investors had been paying very little attention to any of the precious metals. In these days of low inflation, the bulk of the investment community still prefers income-yielding assets.

But there are several equally fundamental factors at work:

● Mine production of silver has been rising steadily over the last few years, particularly from debt-laden countries like Mexico, Peru and Chile, with devalued currencies and a pressing need for foreign exchange. In the first half of this decade, mine production increased by about 25 per cent, according to calculations by Shearson Lehman Bros.

Although rising mine production was offset to a large extent by a decline in recycling of metal last year, that did little to adjust the basic over-supply which has existed in the market since 1978.

What is more, it is unlikely that the low prices which silver is fetching at present will succeed in forcing a significant reduction in supplies. This is because silver occurs mainly as a by-product of other metals such as lead, zinc and copper; only about 25 per cent of production is said to emanate from silver mines pure and simple.

Even the Soviet bloc countries, which were net silver importers in 1984, have now become net sellers of the metal again, adding to the over-supply.

● Silver consumption in industry was knocked for six by the dramatic rise in prices it experienced in 1980. Although demand has been growing again recently owing to the subsequent price crash, the recovery has been slow.

● As a result, here is a large mountain of surplus stocks overshadowing the market. Shearson estimates there is an annual silver surplus of between 2,000 and 3,000 tonnes. The London bullion dealer Samuel Montague says, a little more modestly, that world stocks showed a net increase last year of about 1,310 tonnes, mainly in the US. They are still at levels which serve as a constant reminder to potential investors of the market's embarrassing glut.

So it is beginning to look as if the speculative boom at the turn of the decade, when investment demand was sufficient to absorb the surplus, was merely a blip in a long-term downward price curve. As Montagu rather ruefully puts it, "the surfeit in silver has continued to be taken up by investors, but only at the cost of ever-lower prices and a sharp reduction in speculative participation in the market."

Andrew Gowers

Gold and Precious Metals 4

Gold Share Market

A haven in uncertain times

GOLD MINING shares: you either like them, or you put them into the category of things not to be touched with barge poles. Investors who take the latter view will say, quite rightly, that it is easier and safer to make money by holding good class industrial equities in a bull market. Not so easy, though, when the industrial market bears come out of their dens as they have been doing recently this year.

Shares of gold mining companies, can, of course, rise alongside those of industrial equities provided that the gold price is also firm. It is more usual, however, for golds and industrials to follow opposite directions. A fall in industrial equities may well reflect fears for economic growth and currency stability, a time when money will look for a haven.

Traditionally, gold offers a haven for money in uncertain times. The metal pays no dividends but when bought with paper money which is losing its value—notably when inflation is rising—the price tends to rise in terms of that currency. The holder of gold may not make a real profit on his purchase but, at least, he gets some protection for the value of its assets.

Gold shares as an investment have the edge on the metal. Not only do they offer a return of capital in the case of the dividend-paying mines, but also they can offer greater capital appreciation. For example, a rise of $35 to $385 per ounce in the gold price lifts the value of a holding of bullion by 10 per cent.

However, for a mine which is producing gold at a cost of, say, $250 per ounce, the price rise lifts the company's profit margin by 35 per cent, to $135 from $100 per ounce. The shares thus respond accordingly.

Still, this may cut little ice with the non-buyer of gold shares who regards them as basically risky and rather complicated. It is fair comment, but the risk element peculiar to gold and other mining shares is largely that their fortunes are tied to those of a single product; they cannot alter course in the way that some industrial companies can.

Then, too, a mine is a wasting asset and so a degree of capital return is reflected in dividends. But in the case of the South African issues, at least, a very full distribution policy is followed—there is no need for general reserve allocations apart for funds earmarked for ongoing capital expenditure which also ranks as a tax offset.

Until recently, the gold price had been trading for a year or so in what was generally regarded as an uninspiring price range of about $300 to $350 an ounce. This was high enough, however, for virtually all the world's gold mines to make good earnings. They do not depend on runaway gold prices which can cause them more harm than good in the longer term.

Because gold is sold on the basis of a US dollar price, mines in countries with weak currencies — notably South Africa and Australia — have been enjoying a boost to gold sales revenue when converted in their domestic currency. By the same token, however, the increased dividends paid by such mines have lost some of their shine for the UK investor when translated into higher value sterling.

Profits of the South African gold mines — the best in the world — have climbed to record levels in the past year or two. Long-term shareholders will have recouped all, or most, of their original capital investment by way of rising dividend payments.

Many of the non-South African resident shareholders have thus been content to stay with their investments, despite the political crisis which has hit prices of the shares in markets outside the Republic.

In Johannesburg, the same shares have been rising in terms of falling-value rands and partly because domestic investment money is effectively locked into the country by exchange controls.

There has also been a steady switch of non-South African investment money into Canadian and Australian gold shares. This has pushed up prices of such issues, but it has not been all plain sailing.

The Canadian mines, for instance, have had to live with an uninspiring domestic gold price in terms of their relatively firm currency against the US dollar. This, coupled with some heavy raising of capital in the market, resulted in share prices falling in the first half of this year.

Nor has it been plain sailing in Australian golds this year. While the mines have enjoyed the benefits to revenue of a weak domestic currency, share prices have been dampened by expectations that the gold mining industry there would lose its tax-free status.

Gold mining shares are thus not of the kind that can be locked away and safely forgotten. A holder must be prepared to move in and out of the market in the light of changes in both the US dollar price of bullion and exchange rates. But if this form of investment may appear to be more demanding than others, it also offers the chance of higher rewards.

Kenneth Marston
Mining Editor

Black South African worker drilling in a gold mine in the Johannesburg area.

London

Doubts surface after the JMB rescue

THE London Gold Market has recovered from the shock of the near-collapse of Johnson Matthey Bankers, one of the oldest City bullion houses, according to senior executives at leading companies in the market.

Mr Robert Guy, chairman of the London Gold Market and a director, of N M Rothschild says that no permanent damage had been done to the market by the JMB affair which erupted in October 1984 when the Bank of England rescued JMB from collapse with the help of money from other banks, including the other four members of the market who meet daily to fix the London gold price.

Gold traders believe that the bank's sale of JMB—including its prestigious seat in the gold fix—earlier this year to Mase Westpac, the Australian banking group, has brought the unhappy affair to a satisfactory end.

However, some gold traders at banks outside the charmed circle of the five say that the crisis exposed weaknesses in the market. They argue that the fact that the Bank of England had to step in to rescue JMB shows that the market is undercapitalised and has too few full members. "I regret the JMB rescue happened. It has allowed things to go on as before," said one senior executive at a US company which is one of six associate members of the market.

Companies need to win associate status in order to secure exemption on VAT which is only granted to wholesale gold traders. The number of associates has grown in recent years, increasing the competition in the market at a time when investor interest in gold has declined.

Traders have expanded the range of products to win and maintain business, notably by increasing their activities in gold futures and options.

US-based associate members of the market have led the way in this field. Several traders at these companies believe they have as a result increased their overall share of the London market. But the five members of the fix are loath to admit to losing out to the newcomers.

Mr Guy says the market has become more competitive but it is difficult to know about market shares since turnover figures are not disclosed.

The commitment which several international banks have made to the London Gold Market shows that they recognise its importance and are willing to fight for the business. But they are also aware that in a market where clients value confidentiality and security very highly it takes time and patience to be successful. And the five members of the fix, which mostly have corporate histories dating back hundreds of years, are unlikely to surrender easily a market they have profited from for so long.

Stefan Wagstyl

Zurich

Upsurge in dealing rooms

AS ONE of the world's major trading centres, Zurich is very sensitive to the ups and downs of the precious metals market. Given the sluggish conditions which characterised most of the first half of this year, the majority of banks—a notable exception being Union Bank of Switzerland—reported a fall in income in comparison with the same period of 1985. The National Bank reports that the low gold price, together with the weak dollar, kept the growth of 71 leading banks' balance-sheet totals down to only 6.6 per cent over the year.

All this has now changed. The sudden upswing in the gold and platinum price has made for busy days again in the dealing rooms. On occasion, turnover is said to have risen to two or even three times the normal level. Even though the end of August saw something of a quietening down in the market, dealers believe that the gold price will at least stabilise. Some are already reckoning with a gradual rise —despite fluctuations—to the mid $400s or even $500 and more.

"The feeling on the market has altered," says one banker. "Everybody is much more bullish again." There are a number of reasons for this, most of which have also boosted demand elsewhere particularly the South African situation, loss of faith in the dollar, low interest rates and expectations of higher US inflation.

In the case of Switzerland, the extreme strength of the franc currency has additionally kept the Swiss-franc price from rising at anything like the same rate as the dollar quotation. Indeed, the Zurich kilo price of SFr 21,325 early this month was slightly below the March level despite an increase of nearly 18 per cent in the dollar-per-ounce figure.

As yet, portfolio managers still tend to stick to a five per cent or at best 5 to 10 per cent gold component. However, this could change. Bank Leu and the NatWest affiliate Handels-Bank NW are not alone in considering a "slight upgrading" of this portfolio element. Apart from the speculative interest, dealers are awaiting a rise in industrial demand—particularly for platinum—as processors accept the new price levels and are faced with the possibility of bottlenecks in supply.

Zurich is still far from the gold-bug days of 1979 and 1980, when many bankers felt the price would rise to far above its $850 peak. There is also not a little uncertainty as to how long-term an investment gold should be. Generally speaking, however, gold and platinum seem likely to remain in favour for some time to come.

There is hope in some circles that the poor silver market might benefit from a further strengthening of the other precious metals. The Swiss franc price did improve slightly to around SFr 282 per kilo by early September, but this is not much more than the level of SFr 272—the lowest for years —it had reached in late August. A recent study by Swiss Bank Corporation says the silver price might remain low for the remainder of the decade.

Despite this, the three Gold Pool banks—UBS, SBC and Crédit Suisse—are satisfied with the introduction of their common silver-price fixing last November. This is said to have attracted important producers and new clients, thus apparently having attained its declared aim of asserting Zurich's position as a competitor of London on international precious-metals markets. This had been harmed somewhat by the re-introduction of the Swiss sales tax on physical gold in 1980. After positive experiences with the three banks' brokerage firm Premex in 1982, this justifies the assumption that a limited cooperation between the major operators in the precious-metal market would pay off. The silver fixing is already viewed as something of a "pilot project" for—as yet unspecified—future collaboration.

John Wicks

New York

A welcome rally

EVEN IF it is riding on the coattails of platinum, the recent surge in the gold price to above $400 an ounce has been a real boon to New York's Commodity Exchange, which spent the first seven months of this year in the doldrums.

Having dropped by 15 per cent in 1985, gold futures volume was down by a further 11 per cent between January and July, at 4.48m contracts. Options performance was not much better, registering a decline of almost 8 per cent in the same period to 532,426.

The rising prices in August helped fuel something of an improvement, particularly in the options pit, where daily gold options volume in the first half of the month was up by more than 60 per cent on the average until the end of July.

Exchange officials will be crossing their fingers that the rally continues. Until it started, they were consoling themselves with the thought that—although business had dropped—Comex's market share had increased, thanks to more marked decreases in trading elsewhere.

Dr Martell blames lack of volatility pure and simple for this year's gold volume demise. Last year's Volume Investors debacle (when three gold options traders failed to meet a margin call, precipitating the collapse of their Comex broker) did not, he feels, reach the stage where "confidence in the market was questioned."

Certainly, the exchange's role as a major indicator and hedging vehicle for the world gold trade appears undiminished. Major international banks and bullion trading operations account for some 30 per cent of gold business, Dr Martell estimates, with some additional activity conducted by producers and processors of the yellow metal. Canada's Campbell Resources for example has reportedly been hedging its production for around two years.

The exchange recently secured Commodity Futures Trading Commission approval for a computerised trading link—initially in gold futures—with Australia's Sydney Futures Exchange. Exchange officials have high hopes for the link, which they believe gives them a stake in the increasing globalisation of the futures and options industry.

Across the floor of the World Trade Centre at the New York Mercantile Exchange (Nymex), the latest surge in volatility and volume on the exchange's platinum futures contract has merely iced the cake of what was already a spectacularly successful year. During the first seven months, volume ran at well over twice the corresponding 1985 level, totalling 730,000 contracts. This has prompted speculation that a platinum options contract may be in the offing.

The problems of silver, meanwhile, continue unabated with prices depressed and the physical market in chronic fundamental oversupply. In the first seven months of 1986, Comex futures volume dropped 27.9 per cent from a year earlier to 2.28m contracts, while the Chicago Board of Trade weighed in with a 51 per cent decline over the same period to around 340,000.

A more encouraging sign was that Comex silver options suffered only a 6.9 per cent drop in volume during this time. None the less, there is precious little to suggest that the end of the tunnel for silver may be in sight.

David Owen

Gold and Precious Metals 5

Investing

Fewer risks as a long-term venture

INVESTMENT FASHIONS change almost as frequently as clothing. One moment equities are all the rage; next you must be in property or cash. But the hoarding instinct survives all the time. So even though investors in precious metals, in the western world at least, have had a bad time in recent years, interest in gold (and more recently platinum) remains strong.

Signs of an end to the long depression in the gold market recently brought a quick response from investors and speculators anxious to make sure they did not miss out on any bandwagon.

With low inflation, and relatively high interest rates, in most western countries the case for a sustained surge in the prices of precious metals, of the kind seen in the late 1970s and early 1980s, does not seem strong. In any event investing in precious metals should essentially be viewed as a long-term venture, unless you want to take a short-term risky gamble.

Viewed dispassionately investing in precious metals does not seem to make a lot of sense. They pay neither dividends (unless you buy the shares of producing companies) nor interest. Instead buying the physical metal costs you money in the form of insurance and storage charges, and of course the loss on interest that would have been made if you put your money on deposit with a bank or building society. It needs a considerable rise in the price of the metal to provide the capital gain needed to offset the losses in income.

Nevertheless there are a great many professionals, expert investors including the Swiss gnomes, who believe that no investment portfolio is complete without at least a percentage (the suggested figure is 10 per cent) in precious metals.

Gold, and platinum, it is argued provide protection during periods when other forms of investment may be going wrong, because of monetary or political crises. They are stores of wealth that safeguard you against a decline in the value of money generally, or your local currency in particular. In addition they are an easily transportable form of international currency acceptable all over the world.

Bullion and gold coins are often bought i[illegible] offshore centre where tax is not levied on gold holdings.

The problem, especially for UK investors, is how to get into precious metals in the most practical and sensible way.

The first priority has to be whether you are taking a short or long-term view. If you are aiming to try to make a quick return, with all the risks involved, there are several alternatives. The most popular choice is to buy the shares of companies mining precious metals, which you consider most likely to benefit from the rise in the price of the metal.

The advantage of shares is that they pay dividends, and can be retained as a longer-term investment, if your short-term gamble fails to pay off. The disadvantage is that very often the reason the prices of the metals are rising is because of problems threatening the mining companies (and their profits) and individual companies may have unseen troubles of their own that will more than offset a rise in the price of the metal being produced. Shares also do not provide the crisis period protection given by holding the physical metal.

Alternatively, if you want to stick to "paper" transactions as opposed to buying the actual metal, you can try the futures and options markets.

The big attraction here is that with futures you only have to put up a margin (normally some 10 per cent of the total value) so you have tremendous leverage to take advantage of any price surge. Unfortunately the leverage also works aga[illegible] you if the market moves in the "wrong" direction. Your losses are similarly magnified, and you can find yourself being wiped out, or having to put up huge extra margins, in a very short time in volatile trading conditions.

With option trading you can protect yourself against the worst of the losses, while retaining the hope of reaping large rewards. However, the premium you pay for an option means essentially that you start with a loss, which has to be made up before you make any profit. It can be a heavy price to pay for safety.

Finally, there is the alternative of buying the physical metal itself, normally to hold and keep as a long-term investment. British investors in particular are at a disadvantage. They have to pay 15 per cent valued added tax on purchases of bars, ingots or coins unless it is decided to buy them offshore in one of the offshore centres, like Channel Islands, Gibraltar, Luxembourg or Switzerland, where VAT is not levied.

This is a perfectly legitimate method for UK investors to avoid paying VAT on gold purchases. There are many banks, stockbrokers , and dealers who are quite prepared to buy coins or bullion on your behalf and keep them in a safe place at a specified storage place abroad.

Citibank offer an international "certificate programme" under which you decide how much you want to invest in gold (or silver) in your local currency — with a minimum of the equivalent of $1,000. The bank bunches all the orders received daily and makes an appropriate purchase at the going market price.

It then divides up the purchase made among the individual contributors and provides a certificate stating how much you have been allocated and where the metal is being stored on your behalf. You can either take delivery immediately or at some future date, or alternatively leave it at the point of purchase for a year with no storage charge, and thereafter pay 0.75 per cent of the total value annually. The bank charges a 3 per cent commission for the purchase and a further one per cent when you decide to take delivery or sell the holding.

There are two main disadvantages with "paper" purchases. One is insuring that the company making the purchase on your behalf is entirely trustworthy.

You have to make absolutely certain that the purchase has actually been made and stored in your name, and that proper proof of your ownership and entitlement to the precious metals stored is provided. The answer is to stick to well-known, respectable, companies only. Don't be tempted by supposedly cheaper offers that normally carry a higher element of risk.

The other main disvantage of holding your precious metals abroad is that a piece of paper doesn't satisfy the basic hoarding instinct of actually possessing the physical metal and being able to use it in times of crisis. Most fervent precious metal investors like, for various different reasons, to hold something tangible that can be freely traded without a lot of paperwork being involved.

There is wide choice avaliable ranging from single coins, to bars and ingots of varying sizes.

In particular there is now a plethora of gold goins available, after the moves to ban imports of krugerrands and the decision to stop minting new ones in South Africa.

Taking over the top slot as the best selling gold coin has been the Canadian Mapleleaf, which has a higher gold content than krugers and therefore retains a bigger premium over the gold bullion price. But it is now challenged by a series of newcomers ranging from the planned Nugget from Australia, to American Eagles, Japanese Emperors, and even Chinese Pandas.

However for UK investors there are also gold sovereigns available from dealers and the bullion houses. The "old" sovereigns (that is those minted over 100 years ago) are of special interest since they are classified as antiques and, therefore, there is no Value Added Tax payable. Instead the dealer selling them only has to pay a much lower rate of tax, based on the profit margin, so they represent better value for purchasers.

Spinks, the London dealers, offer two kinds of "old" sovereigns — Younghead Victorians (as they are called) either with St George and the dragon on the reverse, or a shield. The Shields are slightly more expensive since they are slightly older (dating back to 1838 when they were legal tender) while Georges only go back to 1871.

The choice of platinum coins is far more limited. There is only the Isle of Man Noble coin launched at the end of 1985 by Impala Platinum. It is the platinum equivalent of the krugerrand but maintains a rather higher premium over the bullion price since it is more expensive to mint.

John Edwards

Italian Jewellery

Downturn in exports worry designers

"BUSINESS OUGHT to be more buoyant. The price of gold is currently very low, but demand is failing to reflect this," said Mr Antonio Barausse, owner of a small, high quality jewellery firm in Vicenza. Mr Barausse's firm is one of approximately 700 which work in the Palladian city and its surrounding province.

Vicenza's jewellers are responbile for working nearly one-third of the total quantity of gold processed by the Italian jewellery industry. Like Italy's other two main centres of jewellery production in Valenza Po and Arezzo, Vicenza's industry is feeling the effects of a low dollar and the collapse of oil prices.

The country's exports of jewellery in the first five months of the year showed a decline of 17 per cent compared to the same period of 1985. It is likely that the outturn at year-end will be even lower than in 1984.

A strong dollar and high oil prices were important factors behind the success of Italian jewellery in export markets over recent years. There has been notable progress in selling to the US, which last year spent L1,873bn ($1.33bn) in purchasing jewellery from Italy. The US absorbed 45 per cent of Italy's export sales in 1985, against 22 per cent in 1981. Though in decline, the market in Saudi Arabia nevertheless took 13 per cent of Italian jewellery exports last year. Five years ago Saudi Arabia was vying with the US as the principal market.

Mr Barausse's firm employs 20 people, making bracelets and necklaces. He places considerable emphasis on quality and on the regular renewal of a range of items. "Most of our work is with the US, though we are now becoming interested in the Japanese market," he said. The firm has done no business with the Middle East since 1981. "Arab customers are only concerned about quantity, and show little attention to quality aspects," he explained.

Vior is another jewellery manufacturer typical of those in and around Vicenza. Somewhat larger than Mr Barausse's business, Vior employs 40 people and had a turnover of L43bn last year. About 2,500 kilos of fine gold and 5,000 kilos of silver passed through Vior's workshops last year, to be turned into watch cases, bracelets and necklaces. "We sell mainly in the US, though northern Europe also offers us some good outlets," said Mr Agostino Roverato, a director of the company.

Export sales
L(bn)

	1981	1982	1983	1984	1985
Total	2,126	2,978	2,745	3,728	4,188
of which:					
US	475	766	774	1,314	1,873
Saudi Arabia	448	558	533	640	530
Kuwait	n/a	209	238	297	178
Panama	n/a	247	n/a	181	248
United Arab Emirates	161	260	n/a	202	141

"The problem is that export markets are currently unable to absorb all the production. New companies were set up in response to rapidly growing demand from the US, thereby creating a production surplus. And today we face a stagnant market," observed Mr Roverato.

Neither he nor Mr Barausse sell their jewellery in Italy. In any case, although substantial, the domestic market is certainly not sufficient to take up the slack which is being caused by the reductions in export demand. Only about one quarter of the total production of Italy's jewellers is sold at home.

Yet the success which the Italian jewellery industry has enjoyed abroad over recent years is due in no small part to home demand. A tradition of jewellery-making dates back to the Etruscans. This tradition was reinforced in the era of imperial Rome and, more recently, during the renaissance.

The jeweller's craft was raised to the highest levels of artistic skill when Brunelleschi and Donatello worked in goldsmiths' workshops in Florence. In the 16th century, the sculptor Benvenuto Cellini made some of his greatest masterpieces in gold, silver and gems.

It is probably the importance given to appearance—the "Bella Figura" generally sought by Italians—which has ensured a major and continuing place for jewellery. A glance at passers-by in Rome, Milan or any provincial city like Vicenza itself, shows that Italians are enthusiastic wearers of bracelets, brooches, rings and necklaces. Indeed the practice of wearing jewellery is encouraged from the cradle. It is a common custom to give tiny babies small items of gold jewellery.

Good design has been one of the reasons for Italian success in exporting clothes and shoes. Jewellery has also benefited from the careful attention given to the design aspect. "Fantasy and imagination are fundamental factors behind the results which we have achieved," said Mr Roverato. Like Mr Barausse's firm, Vior also designs and models new items in-house.

"Flair and attention to quality in production have put Italy's jewellery industry ahead of the competition," claimed Mr Roverato. "At present other countries are struggling, but they could catch up," he warned. The Confederation of Italian Goldsmiths also expresses concern about growing competition from other countries.

According to Mr Claudio Tomassini "Confedorafi is worried by the threats posed by South Korea and Taiwan." While the danger is not immediate, these two South East Asian countries present a long-term risk with their increasing know-how of gold craftsmanship, coupled to their low costs of labour.

With a winning mixture of manufacturing capability, craft skill and artistic flair, the Italian jewellery industry manages to hold about one quarter of world trade in the sector. Both jewellers and the authorities are eager that the country should not be toppled from this dominant position.

The Italian Institute for Foreign Trade (ICE) promotes jewellery in key export markets, and it gives considerable emphasis to the US. Saudi Arabia no longer appears on ICE's list of markets to be encouraged officially or blatantly. Trading problems dictate a soft approach to selling to the Kingdom.

It is somewhat surprising that although South East Asia is seen as a threat, Japan is viewed as one of the most promising prospects for the Italian jewellery industry. Indeed ICE is giving precedence to its activities in Japan and support for an exhibition in Tokyo in September. Mr Tomassini at Confedorafi explained that the Japanese jewellery industry, based on pearls and a particular use of gold, is not seen as a danger.

There is more concern about the possibility of the market in the US going sour than there is about competition coming from Japan. Mr Tomassini said that Confedorafi is worried about the erection of protectionist barriers against the imports of Italian jewellery into the US. He noted, however, that ICE is working hard to prevent the construction of any such obstacles around Italy's largest market.

This year's downturn in exports is concentrating attention on problems abroad. Yet the industry is still faced with a couple of unresolved difficulties at home. Both Mr Roverato and Mr Tomassini criticised the "monopoly" selling of gold through authorised banks. As well as entailing fees to banking intermediaries, this prevents purchase at the most economic conditions.

The Italian bureaucracy is also to blame for another problem which the jewellery industry has to face at home. Troublesome red tape inhibits the easy and rapid reimbursement of value-added tax to foreigners who buy jewellery in Italy.

But notwithstanding the problems, of which those posed by falling sales abroad seem the gravest, the industry is optimistic. "Certainly there has been a sharp downturn in export sales. But this follows two and a half years of exceptional growth. A pause had to be expected," said Mr Roverato.

David Lane

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Flying lesson for Europe

THE HONEYMOON is over. In the US, the wisdom of the deregulation of air transport is being questioned on all sides. Even Mr Alfred Kahn, who as chairman of the Civil Aeronautics Board in the 1970s sold the policy of deregulation to President Jimmy Carter, has publicly expressed concern. The industry, he says, may be evolving into an "uncomfortably tight oligopoly."

American and United, the biggest domestic airlines, seem to be emerging from deregulation as if anything more dominant than in the days when bureaucrats at the CAB determined fares and routes. A wave of mergers is transforming the industry. Second-tier, but once profitable, airlines such as Eastern, Continental, Republic, Northwest and many others are banding together in order to stay in business. Worse, the host of small independents which sprang up in the early 1980s to challenge the established airlines have mostly gone out of business or been bought up.

People Express, the new entrants' standard bearer, is in deep financial trouble and has been forced to imitate the airlines it sought to displace. About 50 small commuter airlines have vanished as separate entities. As competition kills itself off, passengers are complaining about the bewildering proliferation of fares, the loss of less-lucrative routes and the reduction of non-stop flights.

Blind eye

Much of this fashionable criticism is unwarranted: consumers have gained overall. More passengers are enjoying larger discounts on fares than before and air travel, after adjusting for inflation, costs about 20 per cent less than a decade ago. Yet in the judgment of Mr Julius Maldutis, the airline analyst at Salomon Brothers, the industry is in at least as good—and probably better—financial shape as on the eve of deregulation in 1978. Lower fares and similar profits together imply only one thing: gains in efficiency.

The growing concentration of the market, however, is an ominous development. Unchecked, it will threaten the efficiency gains. The level of competition which the deregulators hoped for may not have been realistic, but there is certainly room in the market for more than five or six giant airlines. The lesson of the past eight years is not that deregulation has failed but that it needs to be accompanied by effective anti-trust policies.

The US Transportation Department, reflecting what Mr Kahn calls the Reagan Administration's "negligent" attitude towards anti-trust legislation, has not done enough to combat anti-competitive practices. It has been soft on mergers and, fortunately, soon cedes its powers of approval to the tougher Justice Department. It has turned a blind eye to what look like blatant examples of predatory pricing. It has allowed American and United to gain enormous market power by exploiting their computerised reservation systems and their very extensive route networks, which probably should have been cut before deregulation.

Fine idea

There is no question of America's moving back to the detailed regulation of routes and fares in place before 1978. But it may prove hard to maintain a truly competitive domestic airline market: Mr Maldutis claims that the costs of market entry for small companies are now prohibitive. If the US is to avoid some form of flexible regulation of the dominant domestic airlines—for example price controls similar to those imposed on British Telecom—it may have to consider the spur of foreign competition. Mr Kahn, as iconoclastic as in the 1970s, suggests that the best way to impose some discipline on the likes of United or American would be to allow KLM or Singapore Airlines to compete in the US internal market.

This is a fine idea but will never be practical unless the rest of the world follows the US example and starts to deregulate its airline industry. The growing concentration of the US domestic market is thus an argument for, rather than against, liberalisation in Europe.

No-one is irreplaceable

TWO IMPORTANT issues are raised by the Guinness affair, which comes to a head at an extraordinary general meeting in London on Thursday. One concerns broad questions about the UK's system of self regulation, and the other is about the standards of behaviour which ought to be expected from the boards of major public companies. It is far from clear, as some would argue, that the Guinness case is a major challenge for self-regulation. What is certainly on trial, however, is the proprietorial role of the investing institutions.

In the course of its bid for Distillers, Guinness promised to set up a two-tier board structure with Sir Thomas Risk, Governor of the Bank of Scotland, as non executive chairman. These commitments must have played some part in persuading shareholders to accept the offer. Some while after the offer closed, Guinness casually announced that these plans had been dropped, and that Mr Ernest Saunders, its chief executive, was to be chairman of the enlarged group.

The UK system of takeovers is largely based on voluntary codes of conduct, and works rather well. The fear is that if undertakings made during the course of a bid can subsequently be ignored without fear of sanctions, self-regulation will break down and be replaced by a more rigid statutory process.

More careful

But imagine for a moment what would happen if a similar affair took place in the US, where there is a well-developed structure of securities law. The probability is that the enforcement division of the Securities and Exchange Commission would make a few phone calls to see if there was any real evidence that the company had deliberately set out to make misleading statements — and then let the matter drop. In other words, it would probably have done no more than the UK Department of Trade and Industry.

The reason is that the concept of contractual undertakings—in this case, the promise to set up a two-tier board—does not fit in comfortably with the federal securities law. Of course, US shareholders would be free to bring legal action themselves, but then so they would be in the UK. The listing provisions of the Stock Exchange are covered by statutory instruments, under which an individual who has suffered a loss as a result of a breach of undertaking can claim damages in the civil or criminal courts.

More pragmatically, it seems plain wrong to suggest that no-one will ever believe a takeover document again if Guinness is allowed to get away with its change of heart. Until now, Mr Saunders and his team could do little wrong in the eyes of the City. Now, their judgment is being seriously questioned. If anything, people will in future be more, not less, careful about the commitments they make during the heat of a contested bid.

Serious efforts

Much the best outcome would be for Mr Saunders to remain as chief executive, and for a strong outsider to be appointed as non-executive chairman. It is true, as Guinness points out, that the role of chairman and chief executive is combined in many successful companies. But there are also cases where the combination has allowed an unhealthy concentration of power. One of the main jobs of a chairman is to handle the company's external relations—an area in which Guinness has been making some spectacular mistakes.

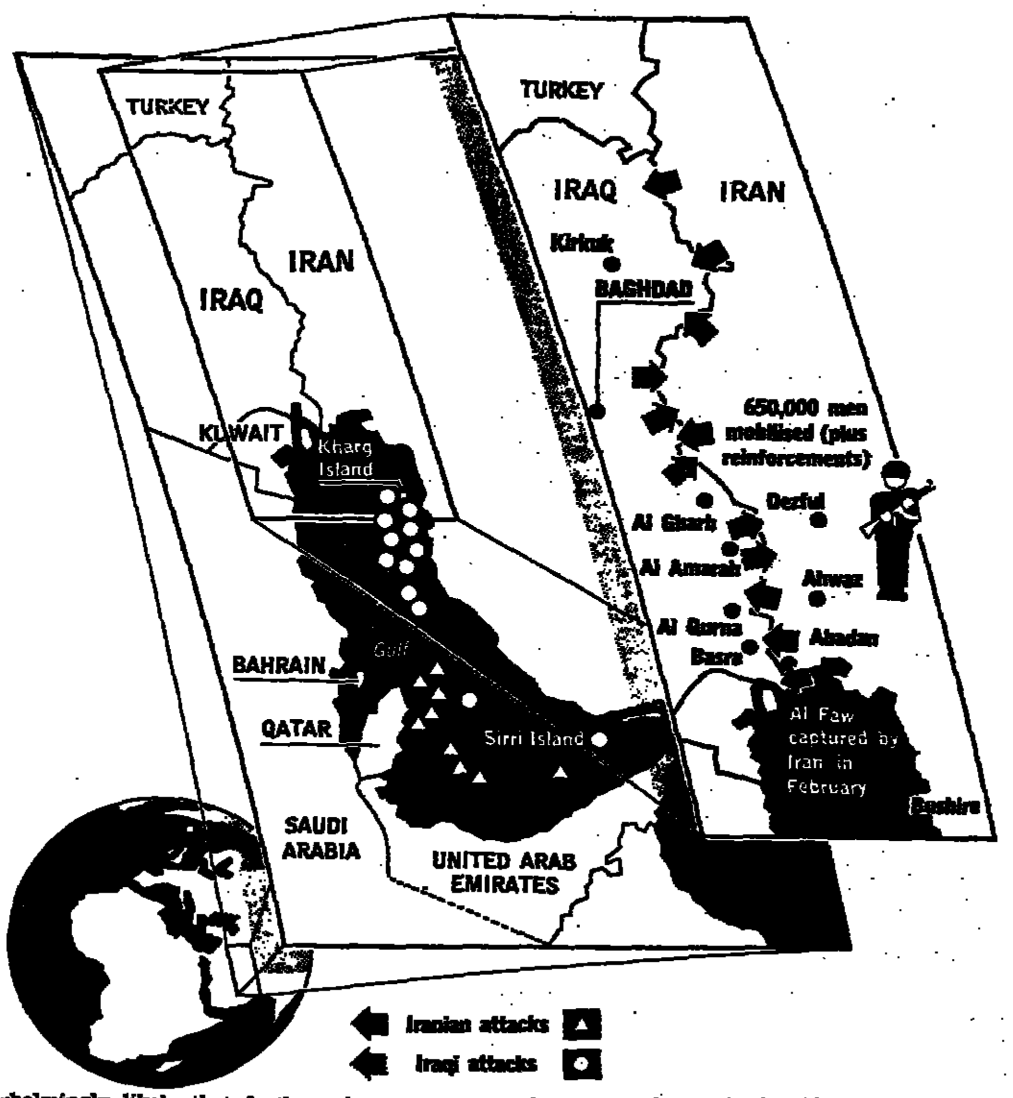
Unfortunately, this option is not on offer at Thursday's meeting, and shareholders have to accept or reject the whole package of changes in one vote. Their dilemma is that if they reject the proposals, Mr Saunders and his team could walk off in a huff. Since they are highly regarded as managers, and well qualified for the difficult task of turning Distillers round, the impact on the share price could be very painful.

But no-one is irreplaceable. In a statement last week, Sir Thomas Risk clearly implied that Guinness did not make serious efforts to fulfil its commitments. The company has yet to make a satisfactory explanation of what events which could not have been expected at the time of the offer subsequently led it to change its mind. The responsibility for controlling the behaviour of management does not lie with the Stock Exchange or with some statutory agency, but with shareholders. On the basis of its performance, so far, Guinness does not deserve the benefit of the doubt. The posts of chairman and chief executive should be kept separate.

THE IRAN-IRAQ WAR

Unwinnable, unlosable . . .

By Richard Johns



NEVER in the course of six gruelling years has the seemingly interminable Gulf conflict generated such a sense of impending climax. The massive Iranian build-up along the border between the two countries this summer, Ayatollah Khomeini's recent assurance that this will be the "decisive year," and the intensification of Iraq's campaign to cut its enemy's economic lifeline, its oil exports, have given rise to vague expectations of a final dénouement.

Most diplomats and analysts monitoring the war are beginning to question whether an indefinite stalemate can still be taken for granted, although how and when it might be broken is still only a matter for speculation. On balance, a military resolution of the deadlock by Iran looks unlikely. Yet there is a gleam of hope that the collapse of oil prices and financial exhaustion might gradually bring the conflict to a halt. Dwindling resources and war, it is suggested, might create the circumstances for a slowdown in hostilities, a de facto ceasefire and, eventually, an armistice.

At this point any talk of accommodation must seem academic. The economic pressures on both belligerents have rather served to raise the tempo of the war.

Iraq has undertaken its most determined effort yet to cut off Iran's oil exports: its success in reducing its enemy's shipments from about 1.6m barrels a day to 600,000 b/d or less can only strengthen the argument of the maximalists in Tehran in favour of a full-scale offensive.

Saddam Hussein's Iraq has finally appeared to overcome its inability—or inhibitions—about exploiting fully its superior air power, stepping up the tanker war as well as bombing economic targets far more effectively than before. Concern at the prospect of deeper involvement in the conflict on the part of Saudi Arabia and Kuwait, which together have probably provided over $30bn in aid and are Iraq's main bankrollers is seen as one explanation for the escalation.

Last summer marked a new approach by the Iraqi Air Force which diversified its attacks on supertankers on the Kharg Island run with a sustained series of raids on the vital terminal itself. There were no fewer than 45 between mid-August and the end of November. Although oil shipments were disrupted, Iran managed to maintain its exports at around 1.6m b/d. During 1986, raids on Kharg Island have been maintained at almost the same rate. Meanwhile Iraqi strikes on tankers on the shuttle run from Kharg to the Sirri Island transhipment centre—as well as Iranian retaliation against vessels coming from or bound for Saudi or Kuwait terminals — have shown a marked increase.

So far this year there have been at least 63 attacks on tankers, with Iraq responsible for about two-thirds of them. This compares with a total of 45 in 1985 and 40 in 1984, according to the calculations of the US Maritime Administration.

In July this year, Iraq signalled a new phase in its conduct of the tanker war following the loss early in the month of the Iranian town of Mehran, only six weeks after it had been taken by Iraqi forces.

Iraq launched a particularly devastating series of raids over a month-long period from July 22. The most severe blow was the strike on Sirri Island on August 12 which forced Iran to shift its crude oil transhipment facilities 150 miles away to Larak Island. Raids on Kharg have left only three out of 13 berths operational and there have also been confirmed hits on Iranian refineries at Isfahan and Tabriz (with the former incurring major damage), a steel plant at Isfahan, a power station, aluminium and cement plants at Arak, an armaments factory south of Tehran, and a paper factory near Dezful.

This may be seen as a measure of Iraq's growing desperation. The Iraqi President's recent call for an end to the war on the same terms Baghdad has proposed previously — mutual withdrawal from occupied territories, agreement on non-interference in each other's internal affairs, and a full exchange of prisoners—was certainly seen by Iran as a sign of weakness. And while there is a grim determination among a wide range of Iraqi's—with the exception of the Kurdish separatists—that Iran must be kept at bay, six years of war with about 100,000 fatalities and 150,000 wounded or taken prisoner have clearly taken their toll. Recent visitors to Iraq and observers of the country note a perceptible decline in morale.

Increasing financial pressures can only undermine Iraqi spirits further. In terms of revenue, Iraq has suffered much less than other members of Opec from the fall in oil prices this year. According to the calculations of Opec's secretariat, its receipts during the first half of 1986, at $3.98bn, were only 9 per cent down on the level of $4.37bn estimated for the same period of last year. The reason was the opening last October of a pipeline connection to Yanbu, the Saudi Red Sea port, which added another 500,000 b/d to Iraq's existing export capacity via an overland facility to Ceyhan on Turkey's Mediterranean coast. The exemption of Iraq from Opec's interim production sharing scheme agreed last month in Geneva and the certainty that Iraq will be able to avoid being bound by any new accord on redistribution of production quotas when the interim deal expires will mean that it will benefit disproportionately from any further gains in per barrel revenue.

Immediately, however, Iraq is confronted with a payments crisis of frightening proportions. In spite of a wholesale rescheduling of debt falling due since 1983, it seems overwhelmingly likely that further harsh austerity measures are in store by the year-end.

Baghdad will be lucky to earn $8bn to $9bn this year from oil, down from an original projection of $15bn.

The direct costs of the war to Iraq are generally reckoned to be running at a rate of at least $500m a month, with the cost rising during periods of heavy fighting. More or less the full amount will have to be provided by Saudi Arabia and Kuwait which last month were understood to have given emergency aid of $4bn.

Overall, the cost of the war to Iraq in terms of military expenditure, lost GDP and lost revenues is estimated by a recent American academic study at $175.7bn from 1975 to 1980. The cost to Iran over the same period is put at $220bn.

Iran's intensification of its attacks against shipping in the Gulf have had the effect of speeding Iran's preparations for a ground offensive and have caused it to escalate its threats against Iraqi's backers, Saudi Arabia and Kuwait. With its dearth of operational aircraft, Iran has had to give priority to the front which stretches 733 miles from Faw to the Turkish border. The Iranian build-up there has been larger than any previously and has involved, according to US satellite pictures, about 650,000 men. Last week Mr Ali Akbar Rasfanjani, speaker of the Iranian parliament, announced the dispatch to the front of an additional 1,000 battalions of guardsmen—350,000 men.

Despite the repeated promise by the leadership that the Iranian year ending March 20 1987 would be a "decisive" one, there is no certainty that all this manpower will be thrown into the fray. Some 250,000 men were massed for a "final offensive" in February 1984, but the operation fell well short of expectation and achieved nothing militarily.

Several recent public pronouncements seem aimed at modifying the Iranian public's expectations.

Ayatollah Khomeini, for instance, said about a month ago: "An effective blow may be the final blow, or it may not be the final blow: it could be the one before the last, two before the last, three before the last." Taking a realistic view of Iraq's superior weaponry and the strength of its defences, the military command may have urged caution.

Arms supplies to Iran also appear to have been stepped up recently. Iran is known to have received shipments of arms including missiles from China, to the extent that US officials are said to be concerned about the balance of power in the war. It has taken delivery of a dozen or so J-7s, the Chinese version of the MiG 21, an antiquated aircraft which could nonetheless give valuable ground support. North Korea has also sent supplies, acting as a proxy for the Soviet Union which is anxious not to lose all influence in Tehran.

At the same time, Iran is also under a strong economic imperative to end the war soon in a manner satisfying at least its minimal objectives. That much was openly acknowledged in July by Mr Rasfanjani: "The suitable solution is that we must move in such a way as to bring the war to a victorious end before economic pressure takes effect." These pressures undoubtedly motivated Iran's initiative in Geneva which made possible an interim accord on production sharing within Opec—a move which has led to a rise in oil prices of about $5 per barrel.

Iran has husbanded available foreign exchange carefully. At the end of 1985, bank deposits recorded by the Bank for International Settlements exceeded borrowings and trade-related credits totalling $4.6bn but this year must have brought about a considerable drain on its reserves. Iran has suffered a far more drastic fall in its revenues than any other member of Opec. According to official Opec estimates, receipts in the first half of 1986 had fallen to $2.9bn, down 59 per cent from $6.2bn in the last half of 1985. Last March's budget had projected oil income at $18.6bn for financial year 1986-87—a figure which now looks hopelessly over-optimistic.

In view of these pressures, the question arises: at what point might a further prolongation of the stalemate accompanied by gradual decline in military activity create the circumstances for an accommodation? The answer, from Iran's point of view, must be: only when Ayatollah Khomeini or his successors are satisfied that they have achieved a sufficient measure of their objectives. It is impossible to assert with any precision what these objectives are today, nor what they may become by next spring. But the following three aims are publicly stated: the overthrow of Saddam Hussein and his "clique"; international condemnation of Iraq as the aggressor; and payments of reparations now put in the $200bn to $300bn range.

There are those, notably some experts in Washington, who believe the Iraqi front may crack under the sustained pressure—an event which is likely to bring some kind of intervention by an aghast Soviet Union as well as the US. But the Iraqi Army's entrenched positions and superior weaponry look sufficient to repel an Iranian offensive on the central and southern sectors of the front where most of their forces are massed.

Western diplomats believe there might be some flexibility in the last two Iranian objectives. The passage of time might soften the demand that the Ba'athist regime be dismantled in its entirety. But the removal of President Saddam Hussein appears non-negotiable.

Khomeini's deep-seated hatred of the Iraqi leader, whom he regards as an "infidel," originates from Hussein's suppression of the Ayatollah's activities when he was in exile at the Iraqi town of Najjaf from 1975-79.

The Iraqi leader's departure is a crucial pre-condition for any move towards a settlement; but he is unlikely to relinquish power voluntarily.

So, despite its public pronouncements, Iran is by no means confident that 1986-87 will prove a "year of decision" in the sense of an outright military victory. The sense of impending climax could well prove unfounded. Only Saddam Hussein's departure—which Iran hopes to bring about by putting pressure on the Iraqi people, and in particular the Armed Forces, to overthrow him—could guarantee to defuse the crisis.

Men and Matters

Modest scholar makes good

Michael Green, chairman of Carlton Communications, would be the first to admit that his formal academic qualifications could be written on a very small piece of paper.

Yet Green, who left Haberdashers' Aske's school at Elstree, Herts, halfway through A Level economics with a modest number of O Levels is about to become chairman of potentially the most significant distance learning institution to be set up in Britain since the Open University.

Lord Young, the Employment Secretary, is expected to name Green, aged 38, chairman of the Open College on Wednesday. The college, which began life a couple of months ago as the College of the Air, is designed to harness the talents of Britain's broadcasters and use gaps in existing television schedules around midday for post-16 vocational training.

Green, whose father ran a publicly-quoted textile company, began work in the printing industry at 17 and set up his own firm 18 months later. He specialised in printing, design and photographic processing.

His move from stills to moving pictures and into all aspects of video and television picture editing and manipulation has turned Carlton into a £300m company. The offer from Lord Young came out of the blue, but Green has probably been chosen to form a link between the worlds of television, education and industry.

The Government will put up £5m a year for three years for the Open College, roughly half its needs. Green will have to get the rest from industry.

Already companies such as Lucas Industries, the Prudential, ICI, the Halifax Building Society and British Telecom have expressed interest.

"I'll be glad when we copy the French and put sub-titles on pop videos"

Happy ship

Admiral Bobby R. Inman takes a hands-on approach to solving the international competitiveness problems of American industry. The Microelectronics and Computer Technology Corporation, which he has headed since its inception four years ago, is the US answer to the Japanese "Fifth Generation Computer Project."

It is an attempt by the US to beat the Japanese by adopting their rules. At MCC, top technologists from 21 member companies collaborate in long range research projects.

Inman announced last week that he is to resign from his position of chairman, president and chief executive of MCC, his task of getting the first US electronics technology co-operative on its feet completed.

The former director of the National Security Agency and deputy director of the Central Intelligence Agency has provided strong leadership for the unusual venture over four years.

Inman gained the MCC important political support. Although some might have seen the research corporation as anti-competitive, Inman won a ruling from the US Justice Department to remove anti-trust problems.

His political skills were further tested in dealing with the views of the 21 companies that have invested in MCC and participate in its research projects. This bunch of arch rivals does not sit comfortably together, but Inman has managed, it seems, to avoid major differences.

Now he will move on to new challenges. "When I entered the private sector four years ago, my interest was in shaping new ways for the US to compete effectively in creating technology," he says.

"I am confident that a variety of new initiatives, including MCC, are leading to a resurgence in US creativity."

But what is not happening, Inman says, is the timely application of new technology in US industry. His future activities "will centre on this very critical element in our industry's ability to compete internationally."

Still banking

President Mitterrand of France appears to have decided after all to keep his personal bank account with Crédit Lyonnais. At least that is what Jean Maxime Leveque, new chairman of France's oldest nationalised bank, suggested the other day.

During his first press conference since being appointed by the conservative government, Leveque denied rumours that Crédit Lyonnais had difficulties, that he had been coldly greeted by the bank's senior management, and that Mitterrand, the bank's foremost customer, had closed his account.

After Leveque's appointment, stories leaked out from the Elysee Palace neighbourhood that the President was planning to leave Crédit Lyonnais in protest at Leveque's nomination. Leveque, a fierce privatisation crusader, formerly head of Credit Commercial de France (CCF) before it was nationalised by the left, replaced Jean Deflassieux, a friend of Mitterrand, at the top of the big state bank.

Mitterrand is said to have been upset by Deflassieux's departure and by what he regarded as the blatantly political appointment of Leveque by Prime Minister Chirac.

Leveque has now tried to smooth the waters by naming Deflassieux as honorary chairman of the bank and paid his predecessor a public tribute during the press conference. He credited Deflassieux for the strong improvement in the bank's profits during the first half of this year.

Moreover to sweeten shareholders and the financial community he also decided to increase by 10 per cent the bank's dividend payout this year.

Missing man

Eddie Shah was Banquo's ghost at the party held on Saturday night in a Mayfair hotel to celebrate the first six months of Today, the colour tabloid.

The big man, who last month surrendered control of his creation to Tiny Rowland's Lonrho, was not there, but much of the conversation was about him.

Today's cartoonist, doubling up as a ventriloquist, entertained the paper's staff by singing The Eddie Shah Blues.

My hair is shrinking and my stomach begins to swell,
All my friends have left me to join the Daily Maxwell

You get the drift. There were jokes about the "limbo interest," now gripping Today's headquarters in Victoria as the paper pushes down market. "The people who get down the lowest keep their jobs."

As the clock approached midnight, the references to Shah became more lavish. Editor Brian McArthur eulogised him as the man who had changed Fleet Street.

But still there was no sign of the man himself when the dance music came to an end at 2 am yesterday.

Observer

FOREIGN AFFAIRS

Many ways to make aid more effective

By Ian Davidson

DEVELOPMENT AID is a notoriously controversial issue, over which ideologies of left and right have long waged intense but inconclusive battle.

Tender-hearted altruists claim that the ex-colonial West has an expiatory duty to beat a whole heap of swords into ploughshares in order to make up for the expropriations and exploitations of the past. Tough-minded free-marketeers argue that aid simply fails to produce any beneficial effects, or is even positively pernicious: either the taxes of the poor in the industrialised world are corruptly misappropriated by the rich elites in the developing world, or else the aid process frustrates healthy economic development by propping up dirigisme and state corporatism.

Inevitably, rational analysis is permanently liable to be destabilised by queasy innuendoes about over-paid UN officials and the palaces of Third World politicians, to say nothing of travellers' tales of grotesque incompetence in the design and implementation of aid schemes in the field. But the central question which may reasonably be supposed to trouble public opinion is this: does development aid produce development?

To get an answer to this question, in the hope of silencing the critics, several major donor countries commissioned a study from a group of experts led by Professor Robert Casson of Sussex University. The conclusions of that study, which the authors claim is the first of its kind and which has just been published in book form under the title *Does Aid Work?*, can be encapsulated in an equally succinct formula: Yes, on balance, but. . .

One of the problems with the question is that much statistical analysis of the macro-economic effects of aid, aggregated over large groups of developing countries, has thrown up answers which are discouraging, ambiguous or just plain inconclusive, whether on the correlation between aid and growth, between aid and the savings ratio, or the impact on investment or taxation.

The conclusion of the Casson group is that these aggregate studies do not tell us very much, because they do not take account of the enormous specific differences between different developing countries, both in their circumstances and in their policies. Broadly speaking, if you disaggregate and look closely at the details, you get a different picture, which is more encouraging about results, and more illuminating about why they are not better.

The balance sheet is very variable between countries, with sub-Saharan Africa performing significantly less well than South-East Asia, but is on the whole rather positive. Some two-thirds of all individual projects perform up to expectations with a significant economic return, while only a very small percentage (in single figures) can be classed as complete failures; and if some of the results are depressing, it is partly because of the incompetence of the governments on both sides of the aid transaction, but mainly because of the extraordinary difficulty and complexity of attempting to bring about development in the most deprived countries.

In a section transparently aimed at right-wing critics in the US, the study acquits the development aid process of having a systemic bias against the free market and in favour of state dirigisme, rebutting both the specifics of the accusation and its underlying assumptions. "Economic history," it says, "does not yield any simple truths about the relations between economic organisation and economic performance."

India and South Korea are often cited by critics as opposite examples of the perverse aid-dirigisme nexus; the study convincingly demolishes the argument. In India the apparatus of economic dirigisme was in place before the Aid-India Consortium started organising large-scale aid flows from 1957 onwards; the Consortium succeeded in forcing a devaluation on India in 1966, but in such a ham-handed and unhelpful way as to reinforce Indian nationalism and "Congress socialism"; but in the past decade India has gradually moved in the direction of greater liberalisation, if not as fast as donors would like, at least at a pace which is stable and controllable.

South Korean development really took off after the arrival in power of the Park government with policies aimed at reform and self-reliance; yet for most of its history, according to the study, so far from offering a model of non-interventionism, South Korea's "authoritarian and intelligently interventionist economic policy towards the private sector" gives it in some ways a stronger claim than India to the label "dirigiste."

By this stage the sceptical reader may be getting restive at what he suspects sounds like the aid lobby talking its own book. After all, Robert Casson is a well-known development economist with long-established links to the aid organisations. He and his associates may say that the record is pretty positive; but they would, wouldn't they?

Up to a point, Lord Copper. To be sure, if Robert Casson had written a root-and-branch denunciation of aid and all its works, that would be a sensational *volte-face*; yet the book is much more interesting than any simple whitewash job could be. For just behind the initial purpose of trying to answer the question "Does Aid Work?" the study has two other, more important objectives: to grapple with the inherent difficulties of the aid process and the reasons for its shortcomings, and to suggest what is needed to do it better. On both fronts, the ideas put forward are, once you read them, depressingly obvious; putting them into practice is bound to be depressingly difficult.

● Countries in direst need of development, the poorest, are for that very reason the countries where development is hardest to achieve; this is particularly true of some of the poorest countries in sub-Saharan Africa. Not merely are they short of natural resources and exposed to every kind of blight of nature, they also lack infrastructure, both physical and (more important) administrative and educational. India, by contrast, though a very poor country in terms of per capita income, is much better placed to grapple with development problems because it has a developed and competent administrative structure.

● Development may be hampered by the proliferation of aid programmes. A given country may be host to 20 or 30 official agencies, bilateral and multilateral, and possibly a larger number of voluntary bodies; making sense of all that, and welding it into a coherent relationship with domestic resources, human and budgetary, is a tall order for a country which does not have a fully competent administration, especially if (as is far too often the case) there is little co-ordination between different aid bodies. The need for co-ordination is now more fully recognised on both sides, but it is a painfully slow process.

● Development agencies are quite critical of their own records in project management; but they are also, according to the study, rather bad at learning from their mistakes, and even worse at learning from other people's. Some of these mistakes derive from the fact that their expertise on the ground tends to be much greater in engineering or irrigation than in understanding the politics or sociology of the country. Once again, donors increasingly recognise the importance of the learning process; doing something about it is more difficult.

● This one sounds so obvious as to be hardly worth saying, but you would be surprised. Donor aid strategies are not likely to work very well unless the donors and the recipient agree on the strategy and on the general policy posture. For many years some of the poorest countries, notably in Africa, stood out against the market-oriented ideas of the industrialised donors; it took the second oil crisis and the slump and (very important) the shift to Structural Adjustment Loans by the World Bank, to bring a change of heart. Now about 20 African countries have adopted better price and exchange rate policies.

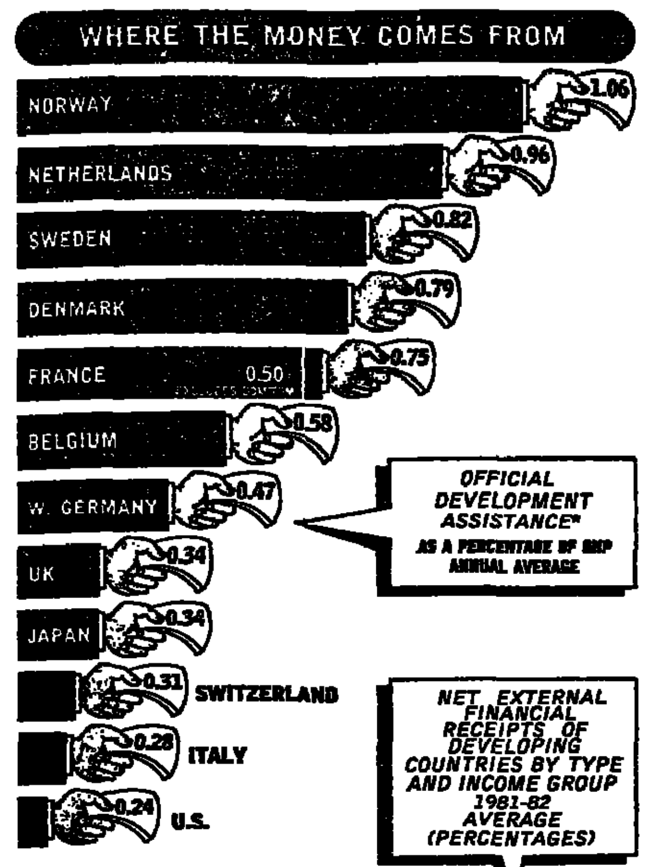
● It is unhelpful of donor countries to complain about policy deficiencies in the developing world, when their own aid policies are distorted by political and mercantilist competition, such as tied aid, mixed credits and crude jostling for national advantage and influence.

● Even if the aid record is less impressive than its advocates would like, that does not prove anything about the objective: aid is most needed where it is most difficult. If the success rate were 100 per cent, we should know that the development agencies were avoiding the most difficult problems. The failure rate of capital venture projects in the US, where the environment should be most favourable, is very high indeed; do the free-marketeers cite this as an indictment of the Capitalist system?

● Critics and advocates of aid are both in too much of a hurry. South Korea and other Newly-Industrialised Countries may have had the luck and skill to enjoy economic "miracles." But the economic development of the West took a few thousand years; and its governments still manage to preside, with apparent equanimity, over unemployment problems to which they claim to have no solution. So why should anyone imagine that economic development for the most deprived countries could be a quick and easy affair, requiring only the mantra of "market forces"?

● Finally, a new approach is needed for the poorest countries: greater external protection through balance-of-payments lending, greater security for long-term investment programmes, better co-ordination of project and non-project aid, a reduction in aid-tying and credit competition.

Does Aid Work? by Robert Casson and Associates. OUP £25 hardback, £9.95 paperback.



NET EXTERNAL FINANCIAL RECEIPTS OF DEVELOPING COUNTRIES BY TYPE AND INCOME GROUP 1981-82 AVERAGE (PERCENTAGES)

	ODA*	Bilateral	Multilateral	Non-concessional flows
Least developed countries	92.3	62.2	30.1	7.7
India China	67.9	26.7	41.1	32.1
Other low income countries	53.4	40.8	12.6	44.6
Lower-middle income countries	35.4	29.6	5.8	64.6
Upper-middle income countries	13.5	12.4	1.1	86.5
All LDCs	35.6	27.9	7.7	62.2

SOURCE: DEVELOPMENT ASSISTANCE COMMITTEE/OECD

Lombard

Jobs and growth —some paradoxes

By Samuel Brittan

ONE OF THE few points of agreement between rival schools of political economy used to be that faster growth was the royal road to full employment. There were disagreements about how to secure higher growth — in particular how to ensure that expanding nominal demand was reflected in real output rather than higher pay and prices. But on the objective there was little dispute.

Yet even this simple link now appears shaky under scrutiny. The chart, reproduced from the July IMF Staff Studies, plots employment growth against output growth for the Group of Seven summit countries. The result is the familiar scatter of points expected when there is no statistical relationship between the variables.

Over the decade 1975 to 1985, Japan enjoyed a growth of output averaging 1 per cent higher than in the US. But employment growth was faster in the US. But the most shattering evidence against the familiar relationship, is provided by the other five countries. They all had a growth rate of output averaging about 2 per cent per annum. But Canada experienced a 3 per cent growth of employment, Italy between ½ per cent and 1 per cent, France and West Germany experienced virtually no increase in jobs, and the dear old UK suffered a ½ per cent contraction.

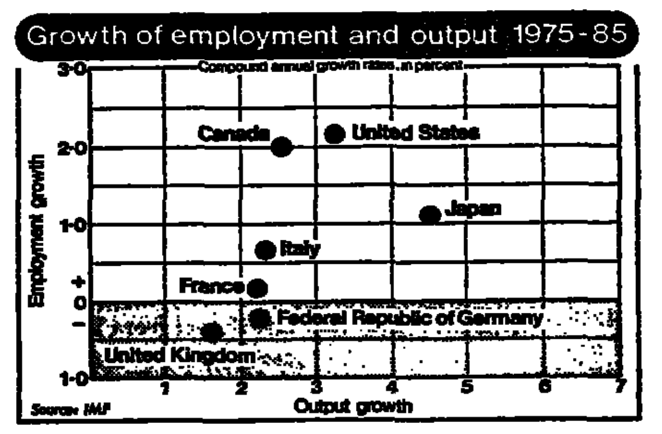
The rupture of the growth-jobs link has been noticed by analysts very different from the IMF. It has been cited by Goran Therborn, a Swedish Marxist, who is curious enough to investigate empirically differences in unemployment performance in the capitalist world. (Why Some People are More Unemployed than Others, Verso, £6.95).

Mr Therborn also finds little relation between unemployment and other frequently cited indicators. The political colour of the government, the size of the country or the degree of "corporatism" (ie centralised employer union bargaining), budget deficits and monetary growth do not provide a way of separating the high and low unemployment countries.

The best generalisation the author can make is that a determination not to let unemployment get out of hand in the first place differentiates low unemployment countries such as Sweden, Austria (or Switzerland?) from the others.

But in spite of all the puzzles and unsolved problems, I am still unwilling to believe that there is really no relation between output and jobs. The genuine case for flexible labour markets is that if more workers are priced into jobs, total output will be higher: and not just that labour would be substituted for capital with an unchanged lump of output. The evidence of the chart is a challenge to deeper analysis: not an excuse for crude fatalism.

Growth of employment and output 1975-85



Letters to the Editor

UK's nuclear energy policy

From Mr J. Taylor

Sir,—I was pleased to read Professor Cassels' excellent letter of August 8 calling for an open debate on the UK's future energy policy. Such a debate brought with all deliberate speed to proper conclusions is indeed very necessary now.

As a North-Western businessman living near Risley for many years, I have followed closely what has happened.

The UK led the world in developing nuclear electricity stations, first at Calder Hall and then in the Magnox power stations. These reactors look rather primitive now but they have given fine service for the last three decades. We can be proud of some great engineers, especially Lord Hinton and Sir Leonard Owen; they brought the Risley Design Group to a remarkable level of competence 25 years ago.

That competence was dissolved by the decision to split up nuclear power station construction. Five private consortia thereafter bid for contracts to build the first advanced gas-cooled reactors (AGRs). The weakest of the four consortia has been struggling for 18 years to get Dungeness B working properly. The other three consortia did a far better but less than perfect job in building several different conversions of the basic AGR. With hindsight it is clear that not more than two consortia should have been set up; and the importance of building sequentially instead of simultaneously was ignored. Thus the engineers did not have a fair chance to learn from experience and mistakes and so evolve a good product.

Three practical lessons appear to have been learned when the second round of AGRs (e.g., Heysham and Torness) were ordered in the early 1980s. We are told that these will be built in six years and that so far all is going to plan. If so, this breed should be continued, particularly if they are safer than other designs (they are of course graphite moderated like Chernobyl but the use of carbon dioxide as a coolant rather than water does greatly reduce the risk of disastrous chemistry).

Meanwhile Lord Marshall with great consistency has argued the construction of AGRs should be abandoned and that the UK should work with Westinghouse of the US to construct PWRs. His enthusiasm and his judgment were not visibly diminished by the serious but not disastrous accident to a PWR at Three Mile Island in 1982 which brought American investment in nuclear power stations to a halt. However, the French have built some 40 PWRs and they appear to be proceeding with great confidence. Are those French reactors safe enough? Is it really true that each French reactor has only one in a million chance each year of giving rise to a disaster like Chernobyl?

If Lord Marshall's argument prevails, the UK's nuclear power programme will be sharply changed yet again. Is it sensible to throw away so much that we have learned painfully about AGRs? Should we not perhaps carry forward the production of both types? We have already paid a large premium (perhaps £500m) to acquire the capability to do so.

PWRs could be exported to sparsely inhabited countries, and the AGR could continue to generate electricity in the UK and be exported to safety-sensitive countries with high population densities like Denmark.

After Three Mile Island and Chernobyl the question of nuclear reactor choice turns much more on the considerations of safety than of cost. Arguments that one type of reactor is, say, 10 per cent more cost effective than the other are now beside the point.

This is the situation that will be addressed by the inspector of the Sizewell inquiry. As Professor Cassels said in his letter, the publication of that report this autumn will be a very important event.

Julian Taylor.
Manchester Ship Canal Co,
Trafford Rd,
Manchester.

British Telecom's corporate relations

From the Corporate Director, Chief of Operations, British Telecom.

Sir, — Your Men and Matters columnist has once again (September 3) criticised British Telecom's corporate relations department under Peter Young's leadership, for being "bureaucratic and unresponsive."

The allegation is quite unfair. Mr Young would not have been asked to stay on at his post a year beyond our normal retirement age if he had not had the full confidence of the chairman, myself, and the other directors.

He and his team have faithfully presented what they have been asked to present to newspapers, including the Financial Times. They have done so thoroughly and with distinction. Sir George Jefferson, of course, continues as chairman of the company, notwithstanding your columnist's statement that he is retiring next month.

Iain Vallance,
81 Newgate Street, EC1.

Cheap butter for taxpayers

From the secretary-general, United Kingdom Provision Trade Federation

Sir,—Your article of September 3 refers to the "mountain no-one can move." A return to the sanity of a normal supply and demand situation would dispose of large quantities of butter.

The EEC consumer and taxpayer, who have paid dearly for these diary surpluses, should be the beneficiaries of a lower price. This can be achieved in a number of ways and the UKPTF, whose members trade in dairy products, is in a position to advise on the best way of going about it to achieve maximum cut-price butter sales. Substantial funds will be required to do this but the price achieved would be far higher than the ill-conceived sale to animals at the equivalent of 1½p per 250 gramme packet of butter.

Once a major part of the stocks have been disposed of, sensible plans can be made for production to be set at a level to meet the demand.

Alan Chandler,
17 Clerkenwell Green, EC1.

Poor welcome at Heathrow

From Mr A. P. Nabhan.

Sir,—Your editorial "A poor welcome at Heathrow" (September 2) is a realistic comment on the immigration issue.

The five countries which have been hand-picked for discrimination have been importing UK goods to the tune of millions of pounds each year. The decision will certainly upset the genuine business community particularly from the Indian subcontinent.

The British Government should spend more money at home to alleviate the problems of the already hard-pressed immigration officers by recruiting more staff rather than squander the taxpayer's money by sending additional staff to the overseas posts.

The ethnic minority population in the UK has yet to be convinced that the latest Cabinet decision is not racist — let alone xenophobic.

Ironically, we have incessant problems with the IRA but no visa is required for Irish citizens. Is it because they are neither brown nor black?

A. P. Nabhan,
PO Box 12,
Slough, Berks.

Visas required in India

From Mrs C. S. Kenny.

Sir,—Your criticism of the UK Government's decision to require visas from visitors from India, Pakistan, Bangladesh, Ghana and Nigeria appears ill-considered, if not racist.

The English visitor to India (and most of the others) requires a visa, even for a very short visit e.g. 48 hours. This has been so for very many years and the FT editorial staff has never criticised this perfectly reasonable practice as "highly questionable" or "humiliating" or "absurd" or having "overtones of racial discrimination" or of being "xenophobic."

The Lord High Executioner, in W. S. Gilbert's libretto for the Mikado refers to people who "never would be missed" and includes on the list
". . . the idiot who praises with enthusiastic tone
all centuries but this and every country but his own."

How unexpected to find such Gilbertian views reflected in your normally very un-Gilbertian journal.

Cynthia S. Kenny
103 Philbeach Gardens,
Earls Court, SW5.

Electricity and the cost of hot water

From the chairman and chief engineer
Archie Kidd (Thermal) Ltd

Sir,—The Electricity Council is again advertising in the national dailies in a way which could be misleading to the public. Under a dramatic picture of a hot water pipe system which can fairly be described as a plumber's nightmare is a message inferring that only by "going electric" can such horrors be avoided. None of the ad-man's system shows a trace of lagging and nowhere in the blurb is it said that hot water from day-time electricity (when water usage is highest) is nearly three and a half times as dear as that produced by a modern central heating boiler. Even on the so-called "Economy Seven Tariff" (12.30 midnight to 7.30 am), the cost is over 60 per cent more.

With these margins and a *normally insulated system with* pipe runs of reasonable length, such as in an ordinary house or in business premises, it is evident that a boiler system is not only acceptable but actually much cheaper to run

A. W. Kidd,
Seend Close, Seend,
Melksham,
Wiltshire.

FINANCIAL TIMES

Monday September 8 1986

Terry Byland on Wall Street

Taking stock of brokers

LAST WEEK'S burst of excitement in Wall Street's equity and fixed interest markets will prove a mixed blessing for the securities brokerage houses.

The heavy fall in federal bond prices was bad news for the big bond traders, several of whom suffered trading losses in May when the market turned. The equity market rebound brought a sharp increase in market turnover, which will mean increased commission earnings. The pending $2.2bn bid for Allied Stores may be just the first of a number of retail industry mergers – exciting for the traders and lucrative for the investment advisers.

If equity turnover and merger activity remain high in the final quarter of this year, stocks in brokerage houses should soon begin to attract the buyers. In May-July, net revenues were sagging after performing strongly earlier in the year.

Until the upsurge at the beginning of July, equity commission revenues were, at best, flat. Investment banking earnings continued to provide the driving force, but these had to be balanced against significant trading losses in mortgage-backed securities, which had previously been the star sector for both Salomon Bros and First Boston.

Last week's turbulence in the bond markets, linked as it was with the activity in gold, the prime inflation hedge, suggests that the big players in the fixed-interest markets may have to fasten their seatbelts again soon.

But for the retail brokers, increased trading in equities is good news. Last week saw daily turnover

COMPANY	p/e
E. F. Hutton	46
First Boston	11
Merrill Lynch	15
Salomon Br.	12
S&P 500	

on the New York Stock Exchange return to the 150m to 190m area, promising substantially more profit than the 100m to 120m totals seen between June and August.

Prices of brokerage firms' stocks have trailed the rest of the market over the past few months, and may take some time to catch up. This is because the sector responds to earnings performance, usually over the very short term. While market turnover was sluggish and the outlook uncertain, brokerage stocks languished.

The best favoured of the retail brokers have been the Shearson Lehman division of American Express, Merrill Lynch, E. F. Hutton and Paine Webber. But there are traps for the unwary. Both Hutton and Merrill have been driven ahead by takeover hopes. With such hopes dwindling, both stocks may have outrun their trading fundamentals.

Paine Webber has maintained a high reputation for cost control and productivity. Profit forecasts from its Wall Street peers are for a gain of as much 112 per cent on last year's $1.70 a share. Earnings of this order would put the stock on a 1986 price earnings ratio of just over nine, against 15 for Hutton and 11 for Merrill.

If the equity markets continue to boil at last week's level, these earnings forecasts may be upgraded. Bull markets always attract the retail investor, and this business is more profitable than the "managed product" lines of mutual or trust fund investment activity. In the first quarter of this year, retail business on the New York exchanges averaged about 40m shares daily, according to estimates by Prudential-Bache. At current turnover levels, that figure could be nearer to 60m.

But the greatest opportunities may be in the stocks of the investment banking groups. It is common knowledge that it is in their roles as investment bankers and principals that the Wall Street powerhouses pull in the really big money. The four-year-old bull market has been fuelled by viciously fought corporate takeover battles, involving block trading, investment advice and loan issues, all major earning opportunities for the major securities firms.

Yet stocks in the investment bankers have trailed the market and substantially underperformed the rest of the brokerage group. The reason is the downturn in second-quarter earnings at First Boston and Salomon Bros, both of which suffered in the mortgage securities business – previously a fast-growing and profitable area for them.

Wall Street estimates earnings gains this year of around 17 per cent at Salomon Bros, 23 per cent at First Boston and perhaps 50 per cent at Morgan Stanley.

If the stock market bull phase continues, then there may be more mileage in those who deal in stocks than in the stocks themselves.

Philip Bassett looks at the implications of the TUC's declining influence

A supporting role for UK unions

BRITAIN'S unions are renewing their traditional but strained links with the opposition Labour Party – originally formed by the unions – in an attempt to improve Labour's chances in the run-up to a general election.

Although Mrs Margaret Thatcher, the Prime Minister, can stay in office for about another two years, all sides are getting ready in case an election is called before then.

Over the next few weeks, the major political parties will do so publicly at their annual conferences. Last week, in the seaside resort town of Brighton, the Trades Union Congress (TUC) – the organisation which covers unions representing about 90 per cent of the UK's unionised employees – held what many of its leaders regarded as its most successful conference for years, with unions of contrasting political views mostly putting aside their differences to help the Labour Party back into power.

But in doing so, they had to accept a tough message from Mr Neil Kinnock, the Labour Party leader. Mr Kinnock, who was aware from opinion polls of the popular view that the unions (which contribute about 80 per cent of Labour's income) control the Labour Party, made it clear in a speech to the TUC conference that the old days of union power in the 1970s are over.

Then, some union leaders were seen as more powerful than the Prime Minister. Now, Mr Kinnock was saying, Labour's responsibility was to the wider public, not narrow vested interests, such as the unions. Labour intended to go ahead with its programme to create 1m jobs in two years: it would prefer to do so with the unions' help, Mr Kinnock told them. But if not, it would do it anyway.

> The old days of union power in the 1970s are over – Neil Kinnock, Labour Party leader

Although this greatly different message from a Labour leader sees the unions very much as the junior partner in a new relationship, it was widely, even enthusiastically, accepted by TUC leaders.

Many of them regard the election of a Labour government as not just the possibility of their regaining some of their lost influence, but more than that: genuinely, as the last real chance of their survival.

Since Mrs Thatcher's Government took office on a wave of anti-union feeling, unions in Britain have seen their power decline as the economic recession bit deeply into their membership – down from 12.5m to 9.5m. What made it worse for the union leaders was that many of their members rejected their near-unanimous advice in the 1979 and 1983 general elections and voted for the Conservatives: Labour's vote in 1983 among trade unionists was down to 39 per cent, its lowest ever.

That gap between union leaders and their members has been skilfully exploited by the Conservatives in a series of laws limiting union power – and, perhaps more importantly, has been reflected in a rocketing growth of non-unionism – about 60 per cent of the UK's employees are now not in a union at all, especially in what are seen as the possible growth areas for jobs, such as high-technology and the service sector.

Unions are having to come to terms with a whole range of changes – a shift to more women working, fewer men; more white-collar rather than manual work; more part-time and temporary work, rather than permanent jobs; a move in jobs from north to south; and from highly-unionised industries to those with fewer, if any, union members.

While these changes are too big to tackle in one week's annual conference, union leaders left Brighton last week feeling they had made a start. Mr Norman Willis, TUC General Secretary, told the conference at its end: "I believe we have shown the vision, the opportunity, the strength to do our best for our people and for the country."

From a whole range of issues, the TUC made three key decisions:

- Law: by large majorities, the conference agreed to a TUC-Labour Party policy for new employment legislation, sweeping away the Conservatives' laws – although most significantly, keeping the ballots on strikes popular with union members – and replacing them with new rights for individual workers.
- Pay: as part of another TUC-Labour package on the economy, the unions agreed to the idea of a minimum wage level (likely to be about £80 ($120) weekly for all employees, enforced by law. Some union leaders opposed it as a first step to pay restraint and it will be expensive for Labour, but both the Party and the TUC see it as an essential step towards dealing with poverty.
- Nuclear power: the most sharply divided issue of the week saw the conference narrowly reject a left-wing policy calling for Britain's nuclear power programme to be phased out and instead supported a review of the industry.

Opinion polls taken at the end of the TUC conference showed that of those surveyed, not many thought the TUC's decisions would make much difference about whether they would vote for the Labour Party. TUC leaders are hoping that such initial evidence can be proved to be wrong.

Labour's policy plans, Page 5

THE LEX COLUMN

The long road to Frankfurt

The pace of denationalisation may be quickening in Western Europe, but not much, it seems, in West Germany. The Bonn Government stands committed to reducing the rag-bag of state holdings, many arising from anomalies of the post-war period which nobody can remember. But for all the capacity of the domestic stock markets to absorb billion-mark equity offerings, from the flotation of the Flick empire to the most humdrum bank rights issue, the largest equity raising so far has not been a privatisation but the DM 2.1bn rights issue by Volkswagen in which state control will be undiluted.

After 18 months of doing other things, in which the only privatisation issue of note was a minority of VIAG, the Bonn Government has now stated that it will next year sell off its stakes in two of the three largest West German public companies by sales, Veba and VW: the cash raised of DM 5bn will take the budgetary role once played, in those far off days when the dollar was appreciating against the D-Mark, by the Bundesbank's foreign-exchange profits.

The announcement of the sale of the state's 20 per cent in VW collided with management's plans for a rights issue to finance an expansion of very tight capacity. Apart from costing 35 per cent off VW's share price, it was a neat reminder of the obstacle to German denationalisation even under conservative governments: the federal system. Where Lower Saxony (with another 20 per cent) does not want to put up capital or lose the control over VW's employment policy that go with its voting rights, Bonn must follow suit.

Indeed, since Bavaria also scuppered the sale of Lufthansa (ahead, fortunately for investors, of a slide in profits), there is every possibility that the VW sale will not prove plain sailing next year.

This may be good news for those investors who have bid VW's price halfway back up again, despite signs that adjusted earnings will find it impossible to make headway against currency pressures on sales in the US market and the rights issue dilution. German investors tend never to mind the dilution, feel the discount – and the bank underwriters holding the 40 per cent of the issue not taken up by Bonn and Hanover have a professional interest in maintaining a market to dribble stock into.

British Gas

The hard bargaining in the City of London over the valuation of what is now British Gas has begun in earnest. In the past two weeks financial institutions not involved in the flotation have come out with some strong knocking copy.

Morgan Grenfell predicts a 20 per cent fall in British Gas' operating profits in the year to the end of March, which would certainly not attract as a prospectus forecast in November. Chase Manhattan thinks that the equity should be valued at little more than £3.5bn.

But before institutions rush to amend cash flow predictions already knocked out of kilter by the enormous private investor interest in TSB shares, they should realise that Chase's valuation rests on the odd assumption that British Gas will pay out only half its net current cost earnings in dividends.

Cover of about 1.2 seems much more likely for this mature business, which even on Morgan's predictions suggests an equity capitalisation of £5.5bn. Add to that the £2.5bn the Government is taking out in the form of debt, and the Chancellor will be getting the £8bn from British Gas that back-of-the-envelope sums suggested he might even before the oil price collapse.

Although British Gas will have suffered through the slowness of its gas purchase contracts to respond to falls in the price of its competitor fossil fuel, its own brokers, Hoare Govett, seem strangely unprepared to admit outright that profits this year will fall. The freezing April was a bonanza for the company, all the more so because of the strike on the Frigg field for part of that period. This meant that British Gas drew even more from the low-cost older southern North Sea fields to meet the exceptional demand.

It will clearly be an enormous boost for the flotation if the company can make a forecast that beats last year's historic cost operating profit of £1bn. The problem is that British Gas's profits are extremely volatile within a range of about £100m in either direction. This is one company which certainly cannot be criticised if it ever blames climatic conditions for poor results.

The extreme seasonality of the business is another trap for the prospectus forecasters. The company has never published half-year figures, but the City may have to get used to one of its biggest income stocks producing interim losses. About 95 per cent of the last year's operating profits were earned in the second half, according to Hoare Govett.

About 20 per cent of the issue is likely to be sold to Japanese and US investors. They at least will have their own experience of quoted gas utilities, but the differences between them and British Gas are so great as to make comparison meaningless.

The US gas distribution stocks are subject to maximum rate of return regulation – just like British Gas before privatisation. In Japan the gas stocks have been caught up in the obsession with underlying property values. Now if British Gas's high street sites could attract the historic multiple of over 80 accorded to Tokyo Gas, then the Government's funding problems would be over.

Pomp and passion as Tutu is enthroned

Continued from Page 1

guests at the enthronement alongside Mrs Coretta King, widow of Dr Martin Luther King, anti-apartheid activist, civil rights campaigners, prominent clerics and the diplomatic corps.

State-run radio ignored the enthronement in its morning radio news broadcast, and no member of the Government was invited. Ironically for the enthronement of a man whose influence was so widely spread by the international television networks, the occasion was marred by a row over payment demanded from the private television company chosen to film the enthronement and the exclusion of camera teams from the cathedral.

Despite antagonism between the new Archbishop and the Government, however, the new leader of the country's Anglican community gave the traditional prayer for the country's leaders and bid the congregation to pray for the State President and "those in authority under him."

Latin American debt payments now exceed original borrowing

BY PETER MONTAGNON, EUROMARKETS CORRESPONDENT, IN LONDON

LATIN AMERICAN countries have made debt service payments amounting to almost $100bn more than they have received in foreign finance since the debt crisis began in 1982. This has wiped out the entire net inflow of capital generated in the petrodollar recycling period of the 1970s, the Inter-American Development Bank (IADB) reports today.

Demands placed on Latin American countries by the need to service the region's $368bn foreign debt have intensified the four-year-long recession, and the outflow must be slowed or reversed if growth is to resume, the bank says in its annual review of Economic and Social Progress in Latin America.

Since the debt crisis began, export earnings have been the main source of resources for debt service, holding back essential imports and investments. Import volume fell about a third in the first half of the decade, and real gross domestic investment was down about 27 per cent.

Last year the IADB provoked a storm when it suggested that measures to contain the debt crisis had done more harm than good. Its 1986 report attempts to avoid such controversy, but its factual presentation leaves a bleak picture of the region's economic state one year after the launch of the Baker Plan for easing the developing country debt crisis.

Overall economic growth in Latin America touched 3.5 per cent in 1985 compared with 3.2 per cent in 1984, but this was largely due to the high growth rate in Brazil, whose economy expanded by 8 per cent.

"The story of 1985 is really one continuing decline, stagnation or only marginal improvement in nearly all countries," it says.

Across the region, per capita income fell 8 per cent compared with the level of 1980. A rapid increase in the labour force, to 131m from 113m in 1980, has intensified the impact of recession on unemployment and visible under-employment, it says.

The report does not discuss the plan for easing the debt crisis launched a year ago by Mr James Baker, US Treasury Secretary, but the IADB alludes to the philosophy behind the plan by noting that there is now a consensus in the developed and developing worlds that the only way out of the debt crisis is through a resumption of growth.

When he launched his debt plan a year ago, Mr Baker called for an increase in lending by commercial banks and official development banks to help secure economic growth in the debtor countries.

However, external capital flows to Latin America last year fell below even the $5bn recorded in 1983, the lowest level since 1972, the IADB says. What limited inflows there have been since 1982 have been swallowed up by interest payments so that the region's debt has grown about $50bn without any productive economic purpose.

There must be an increase in net external financing, and a reduction in debt service costs, as well as a further growth in export earnings if essential imports are to rise again, the IADB adds.

Economic & Social Progress in Latin America, available from Inter-American Development Bank, 808 17th Street NW, Washington DC 20577.

Hijackers face death penalty

Continued from Page 1

lights went out on the jet, the hijackers opened fire, most of the passengers and staff escaped, and, according to officials and passengers, police and commandos took 10 to 15 minutes to arrive.

The President said he was "totally satisfied and very, very proud" of the security forces. "I think the handling was professional and brave and that the result was totally what we expected."

He had not heard that the commandos had taken 10 to 15 minutes to arrive but would look into the question.

General Jehandad Khan, the provincial governor based in Karachi sitting beside President Zia, said the commandos had been about 200 yards from the aircraft. Their commander had taken two minutes to arrive. A follow-up group had taken 30 seconds more and "all not more than three minutes."

Trade curbs 'could lead to stagnation'

BY WILLIAM DULLFORCE IN GENEVA

WORLD TRADE faces prolonged stagnation or decline if countries continue down the competition-distorting road of managed trade and market-sharing agreements, the general secretariat of the General Agreement on Tariffs and Trade (Gatt) has warned.

The warning comes in Gatt's annual report, the first chapter of which is released today – a week before the meeting at Punta del Este, Uruguay, at which trade ministers are due to launch new trade-liberalising negotiations.

The report said world trade had grown more slowly than expected in the first half of this year and the trade imbalances between the three biggest trading nations, the US, Japan and West Germany, had widened.

The report underlines the importance of the decisions ministers will have to take if world trade is to be returned to a truly free trade system.

Governments in Punta del Este will need to demonstrate the same capacity for introducing changes in the area of trade as they have already done in combating inflation and in trying to stabilise exchange rates, the report says.

Gatt estimates that merchandise trade volume continued to increase at the 3 per cent rate recorded in 1985, well below the 4 per cent to 5 per cent it predicted at the beginning of the year.

The key factor was that economies of the industrial countries responded less strongly than expected to the fall in oil prices, the decline in interest rates and the depreciation of the dollar.

The Gatt secretariat is uncertain about the extent to which the stimulating effects on output of changes in these key prices will show up in the figures for the second half. It now expects the 1986 volume of world trade to expand only marginally faster than last year – at about 3.5 per cent.

Recording a further widening of the imbalance between the US trade deficit and the trade surpluses of Japan and West Germany in the first half, the Gatt secretariat joins the growing argument that efforts to reduce the imbalance should focus on national fiscal and monetary policies.

The US first-half deficit was $83bn ($69bn for the first half of 1985) while the dollar figure for Japan's trade surplus was $34bn ($18bn) and for West Germany $22bn ($10bn).

The oil price and exchange-rate changes will affect these countries imports and exports, but their impact on the trade balances is less straightforward, the Gatt secretariat argues.

The secretariat also fears a stagnation in world trade as countries increasingly resort to market-sharing agreements that distort competition.

This could cripple efforts to promote economic growth, solve the debt problems of developing nations and create jobs, it warns.

The report says it is unlikely world trade could decline by anything like the 40 per cent in value and 25 per cent in volume recorded between 1929 and 1934, but it finds enough parallels not to rule out the possibility of prolonged stagnation.

Gatt talks, Page 4

World Weather

		°C	°F			°C	°F			°C	°F			°C	°F
Ajaccio	S	25	77	Dubrovnik	S	24	75	Malta	F	26	79	Rhodes	F	28	82
Algiers	S	31	88	Edinburgh	F	14	57	Manchester	S	14	57	Rio de J'o	C	16	61
Amsterdam	S	15	59	Faro	S	27	81	Manila	F	22	72	Rome	S	25	77
Athens	S	28	82	Florence	S	24	75	Melbourne	C	13	55	Salzburg	F	19	66
Bahrain	S	34	93	Frankfurt	F	16	61	Mexico City	F	13	55	San Francisco	C	14	57
Bangkok	F	27	81	Funchal	S	23	73	Miami	F	25	77	Seoul	F	27	81
Barcelona	S	25	77	Geneva	S	24	75	Milan	S	24	75	Singapore	C	25	77
Beirut	F	24	75	Gibraltar	S	25	77	Montreal	C	11	52	Stockholm	C	13	55
Belfast	S	14	57	Glasgow	S	13	55	Moscow	C	14	57	Strasbourg	F	17	63
Belgrade	S	26	79	Guernsey	C	15	59	Munich	R	15	59	Sydney	S	16	61
Berlin	F	15	59	Helsinki	R	10	50	Nairobi	F	26	79	Taipei	F	27	81
Biarritz	S	21	70	H. Kong	F	29	84	Naples	F	28	82	Tangier	S	24	75
Bombay	F	27	81	Innsbruck	F	21	70	Nassau	C	25	77	Tel Aviv	S	30	86
Bordeaux	S	24	75	Inverness	R	12	54	New Delhi	S	35	95	Tenerife	S	31	88
Brussels	S	16	61	Islamabad	F	19	66	New York	F	16	61	Tokyo	S	29	84
Budapest	S	24	75	Istanbul	S	25	77	Nice	S	24	75	Toronto	F	8	46
B. Aires	F	9	48	Jakarta	R	22	72	Nicosia	F	34	93	Tunis	S	28	82
Cairo	S	32	90	Jersey	–	–	–	Oporto	S	20	68	Valencia	S	28	82
Cape Town	C	16	61	Jo'burg	S	26	79	Oslo	F	13	55	Venice	S	23	73
Caracas	C	19	66	Lima	–	–	–	Paris	C	16	61	Vienna	F	21	70
Casablanca	S	25	77	Lisbon	S	25	77	Peking	C	18	64	Warsaw	R	11	52
Chicago	C	6	43	London	S	18	64	Prague	F	15	59	Washington	S	17	63
Cologne	F	16	61	Los Angeles	C	18	64	Reykjavik	S	10	50	Zurich	F	20	68
Copenhagen	F	13	55	Luxembourg	F	14	57								
Corfu	S	28	82	Madrid	S	28	82								
Dallas	C	22	72	Majorca	F	28	82								
Dublin	S	15	59	Malaga	S	26	79								

Readings at mid-day yesterday:
C-Cloudy D-Drizzle F-Fair Fg-Fog H-Hail R-Rain S-Sun Sl-Sleet Sn-Snow T-Thunder

EEC ministers unite

Continued from Page 1

sures against countries and organisations who promote terrorist activities, including Libya, on condition that conclusive evidence of their involvement is available.

Most European Community governments feel that such proof was lacking at the time of the US military raid against Libya last April although the British Government allowed US aircraft to use bases in Britain for the operation.

The domestic political outcry provoked by the full backing given by Mrs Margaret Thatcher, the Prime Minister, for the US action is clearly behind the Government's repeated insistence that incontrovertible evidence must be provided before punitive measures are taken in the future.

Sir Geoffrey denied that the minister had taken a decision, or even laid down guidelines, for the adoption of further sanctions against South Africa, emphasising that this would not be decided until September 15 and 16, when the next formal meeting of EEC foreign ministers takes place.

The Foreign Secretary said there had been "no consensus" at the meeting on further sanctions against South Africa.

In spite of Sir Geoffrey's cautious remarks, the indications are that the foreign ministers will find it difficult not to ask their governments to endorse the additional measures foreshadowed at the EEC Hague summit, including a ban on South African coal, iron and steel imports.

FINANCIAL TIMES SURVEY

Reinsurance

The reinsurance community believes that, for the moment, it is recovering from the recession that has lasted since the late 1970s.

Looking beyond the year's end

By John Moore

AFTER A recession that has lasted since the late 1970s the world's insurance community has entered a recovery phase. This week, in Monte Carlo, around 2,000 representatives from the international reinsurance community will be taking stock of the effects of the recovery on their own important secondary risk carrying market.

The reinsurance representatives meeting in Monte Carlo are attending one of the most significant annual conventions in their business year. For it is here that the reinsurance industry attempts to establish market trends ahead of the end of the calendar-year, when large portfolios of business are re-priced in the annual renewal season.

As a secondary market, the reinsurance community plays a key role in the wider insurance community. It provides two central facilities for insurance companies; it allows them to spread out individual risks that are too big even for the largest insurance company to handle; and it allows small companies to accept more business than their own capital could safely support, which in turn stimulates the smaller companies' expansion.

As members of the public seek insurance protection, so insurance companies seek their own protection against large claims through the mechanisms of reinsurance, laying off risks throughout the world.

Since the 1960s, the reinsurance community has expanded considerably. In 1965 world reinsurance premium income was $5.6bn. Now more than $60bn in premiums is retained by reinsurance operations for their own account. By comparison, world insurance premium volume totals more than $500bn.

Like the insurance industry, the reinsurance market's business-cycle has been on a downward path since the late 1970s. Like the insurance industry, the reinsurance community has suffered from the effects of overcapacity. There has been too much available capital seeking insurance business which has not grown at the same rate as the underlying capital resources.

In 1984 reinsurers in the US turned in their worst results ever. *According to* the Reinsurance Association of America, the standard yardstick for measuring how well or how badly companies are doing—the combined ratio—showed that underwriting losses expressed as a percentage of premiums in the industry had jumped from 116.4 to 128.2. Last year the deteriorating trend was halted and the association reported an industry combined ratio of 121.4.

So how firmly based is the apparent recovery, and how long can it be sustained?

The most important period of growth for the reinsurance community came in the early 1970s. At that time, US insurance capacity contracted sharply as falling stock market values eroded insurance companies' reserves.

The US insurance industry sought extensive reinsurance protection outside its own market. The reinsurers provided a pool of capital which paid for the large claims of the direct insurers, who would otherwise have found their individual resources strained beyond their limits.

This period of growth laid the foundation for the present structure of the reinsurance community and its later problems.

Much of the US reinsurance business flowed to London, which helped the UK to become one of the world's largest reinsurance centres. Lloyd's became an important reinsurance centre, and as much as 70 per cent of its annual premiums of £3bn is accounted for by reinsurance.

The demand for reinsurance encouraged European groups to develop their reinsurance operations in the US, while established American insurance concerns developed their own reinsurance departments. Other non-insurance groups entered the reinsurance market in order to gain business.

The reinsurance capacity explosion came during a period of high interest rates. Reinsurance, like insurance, is a cash generating business. It provides the possibility of a two-way return for those with a stake in its operations.

Reinsurers earn premiums which, as long as claims do not exceed premiums, will produce an underlying underwriting profit. The premiums can be invested, which produces more income. Even if reinsurers make an underlying underwriting loss, the investment income returns from the premiums can ensure that an overall profit is produced.

The level of demand and high interest rates encouraged a wide range of operators to enter the reinsurance market—from highly organised insurance operations, to unscrupulous specialists at the fringe who saw an easy access to large funds in an unregulated market. Many of the newcomers, describing themselves as reinsurers, were operating no more than shell companies which took in money through a reinsurance contract, retained a tiny part of the risk, and reinsured the bulk of the business with other reinsurers.

Insurance risks became atomised throughout the world in a complicated chain as participants sought pieces of the $60bn market. The reinsurance community became overheated, and the boom-like conditions of the mid-1970s started turning down as aggressive competition slashed premium rates.

The first phase of the current recovery in the reinsurance community has been influenced chiefly by a sharp contraction in capacity. That contraction has been caused by worsening underwriting results.

Many reinsurers attempted to organise portfolios of business in which the pay-out period on claims would take many years. This would allow them to earn interest income on the invested premiums. To this end, reinsurers built up long lines of liability business in the expectation that claims would not become due for many years.

The strategy went wrong when court awards in the US spiralled against companies that had taken out insurance to protect themselves against litigation. The impact was felt in the reinsurance community, which accordingly began to withdraw from underwriting in this class of business.

Worsening underwriting results on other classes of business forced other reinsurers to re-examine the quality of their portfolios. In London, major reinsurers began to cut back drastically on the number of contracts which they accepted in an effort to reduce losses and improve their results.

Industrial companies, seeking to reduce the cost of their insurance programmes, had established their own "capitive" insurance companies, which insured the risks of the parent company.

These captives were largely based offshore in centres such as Bermuda, which evolved rapidly into a major reinsurance and insurance centre with 740 companies generating premiums of $6bn. They, too, had *entered the reinsurance arena* in an effort to diversify their portfolios, and at the same time satisfy the taxation authorities in the US, which had disputed the tax-deductibility of in-house insurance premiums.

The captive companies became the targets for the placing of some of the poorest quality of business. Because of inexperience, the captives often underwrote the business at inadequate rates and many suffered large losses. Many of the companies withdrew from underwriting, or curbed their underwriting of third party business. Liquidations mounted.

As the reinsurance market tightened and premium rates began to rise, particularly when insurance companies had sought protection for individual risks rather than for entire portfolios of their business, so the insurance companies had to reassess their own strategies.

In many cases they decided to retain the risks on their own books, provided that they themselves could earn a sizeable increase in premium from their clients. If they could not, and some customers could not afford the dramatic rise in premiums, particularly on liability classes of business, then the cover was refused.

Now some brokers fear that underwriters will lose business permanently in the reinsurance market. Not only are insurers attempting to retail more of the business, they are also more cautious than ever before about the underlying security in the reinsurance market. There has been considerable volatility in the reinsurance market as "fair weather" underwriters have sought to withdraw from the market.

Moreover, clients of direct insurers, worried about the mounting cost of premiums, are once again considering alternative methods of arranging their insurance requirements. *Brokers are organising* pooling arrangements for companies who are seeking to fund their exposure to liability claims. Some of these funding arrangements are being organised as 10-year programmes, which could mean that business will be lost to the insurance industry even if rates do eventually turn down.

For the moment, the reinsurance community believes it is on a recovery track, at the expense of losing business volume. Few of its members are prepared to forecast how long the recovery will last before they once again have to start aggressively competing, by cutting rates, in order to maintain their position in the market.

The world's 15 leading specialised professional reinsurers

	NON-LIFE gross (in millions)	NON-LIFE net	LIFE gross (in millions)	LIFE net	Total gross (in millions)	Total net	TOTAL net premiums (in US$m*)
Munich Re (DM)	9,684.4	8,420.3	1,340.2	1,232.6	11,024.6	9,652.9	3,066.4
Swiss Re Group† (SFr)	5,776.0	5,134.0	1,901.0	1,418.0	7,677.0	6,552.0	2,534.6
General Re Group†¶ ($)	—	1,282.8‖	—	307.6**	—	1,590.4	1,590.4
Employers Re Group† ($)	594.4	499.3	185.7	129.1	780.1	628.4	628.4
Mercantile and General Reinsurance Group†¶ (£)	—	325.8	—	185.7	—	511.5	591.5
Gerling Group† (DM)	1,887.3	1,430.1	492.6	363.3	2,379.9	1,793.4	569.7
Prudential Re Group†¶ ($)	—	450.4	—	—	—	450.4	450.4
American Re ($)	680.0	441.5	—	—	680.0	441.5	441.5
SCOR (Société Commerciale de Réassurance)‡ (F)	4,859.2	3,288.7	786.5	527.8	5,645.7	3,816.5	397.9
Cologne Re (DM)	1,118.3	896.4	330.2	306.4	1,448.5	1,202.8	382.1
Frankona Re (DM)	1,219.2	922.0	209.4	185.2	1,428.6	1,107.2	351.7
Tao Fire and Marine Re§ (Yen)	129,579.3	79,093.0	—	—	129,579.3	79,093.0	315.0
Hannover Re (DM)	1,084.3	872.0	24.4	18.6	1,108.7	890.6	282.9
New York Ins. Exhange ($)	341.1	218.0	—	—	341.1	218.0	218.0
Netherlands Reins. Group† (Fl)	904.2	550.1	288.4	212.6	1,192.6	762.7	214.9

(Companies ordered according to their 1984 net premium income converted into US$)

* The premiums were converted from original currencies into US$ at the rates of exchange as per December 31 1984.
† Including all subsidiary reinsurance companies, excluding direct insurance companies.
‡ Taking into account the branch offices abroad, the consolidated gross premium income of the SCOR group amounted to F6,352m in 1984. The group's net premiums are not known.
§ Year ended March 31 1985.
¶ No gross premiums quoted.
‖ Foreign Life reinsurance business included.
** Domestic business only.

Source: International Insurance Monitor; April/May 1985.

Contents

REINSURANCE 2

Leading US reinsurance companies' results: 1985 ($000's)

	Net reinsurance premiums written	Net reinsurance premiums earned	Losses and loss adjustment expenses	Loss ratio	Underwriting expenses	Expense ratio	Combined ratio %
General Reinsurance	1,586,532	1,313,742	1,113,978	84.8	412,290	26.0	110.8
Employers Reinsurance	760,380	614,518	565,377	92.0	181,254	22.8	115.5
American Reinsurance	730,222	567,469	463,378	81.7	252,987	34.5	116.2
North American/Swiss Reinsurance	587,666	518,283	488,276	93.6	216,922	36.9	130.5
Prudential Reinsurance Group	517,457	501,034	442,257	88.3	159,342	30.8	119.2
Munich Reinsurance Group	459,403	390,078	294,621	75.5	140,850	30.7	106.2
Kemper Reinsurance	295,327	265,739	250,065	94.1	60,175	20.4	114.5
National Reinsurance	220,301	180,812	168,941	93.4	46,072	20.9	114.3
INA Reinsurance	219,451	212,534	221,740	104.2	72,783	33.3	137.5
New York Insurance Exchange	201,132	199,111	225,711	113.4	78,243	38.9	152.3
Continental Reinsurance Corporation	198,490	189,950	161,867	85.2	55,174	27.8	113.0
Transatlantic Reinsurance	192,417	169,573	166,745	98.3	50,710	26.4	124.7
Skandia America Group	182,709	179,651	164,202	91.4	71,581	38.2	129.6
Buffalo Reinsurance	174,615	165,381	170,292	103.0	39,419	32.6	135.6
St Paul F&M	160,483	125,476	102,971	82.1	46,090	28.7	110.8
Constitution Reinsurance	141,932	139,465	110,381	79.1	41,186	27.0	106.1
Freemont Reinsurance	114,146	108,545	114,252	105.3	28,102	24.6	129.9
American Independent Reinsurance	114,888	121,146	122,830	101.4	31,181	27.1	128.5
Continental Cas. Company	114,092	79,750	71,064	89.1	29,474	25.8	114.9
USF&G Company	109,112	63,759	58,887	92.4	20,330	18.6	111.0
Winterthur Swiss	95,491	92,746	79,190	85.4	30,284	31.7	117.1
Metropolitan Reinsurance	92,831	81,219	78,201	96.3	25,962	28.0	124.3
Home Reinsurance	91,710	80,050	76,661	90.5	20,009	21.5	112.6
Constitution State Management	89,586	85,058	81,919	96.3	20,641	22.0	119.2
Nationwide Mutual	75,742	70,591	60,870	86.2	19,904	26.3	112.5
American Union of New York	73,759	66,199	61,813	93.4	21,785	29.5	122.9
MONY Reinsurance	68,968	51,758	53,026	102.4	20,690	29.9	132.3
Reinsurance Corporation of NY	67,718	60,169	60,706	100.9	22,068	32.6	133.5
PMA Reinsurance Corporation	65,284	59,453	45,680	76.8	16,281	24.9	101.7
Unity Group	63,486	54,592	44,556	81.6	21,334	33.6	115.2
San Francisco Reinsurance	60,860	59,791	58,719	98.3	17,232	28.4	126.6
Mead Reinsurance	55,922	54,798	54,894	100.2	15,878	28.4	122.6
Republic Western Insurance Co	51,427	44,382	41,471	95.0	12,319	24.0	117.0
Christiana General	50,364	49,099	38,344	78.1	16,580	32.8	110.9

Source: Reinsurance Association of America

Research: Rivka Nachoma

THE KEY figures to the health of individual companies are:

● Net reinsurance premiums written—a good guide to the volume of new business done.

● Losses—the claims which insurers pay out from their premium income.

● Underwriting expenses—the cost of running the business and administering claims.

The last two categories are often expressed as a percentage of net premiums earned.

● The combined ratio is probably the single most important figure for any company. It is a combination of the underwriting expense ratio and the loss ratio. A combined ratio of under 100 indicates an underwriting profit; one over 100 generally indicates a loss. Normally companies aim for a combined ratio of 100 or lower.

A reinsurance company's earnings from investing customers reinsurance premiums are used to cover the difference if the combined ratio is over 100.

The US market

Benefiting from the 'crisis'

THE US reinsurance industry is basking in the comfortable glow that comes from knowing that, for the first time in many years, profits are rising rapidly, that there is a shortage of good reinsurance capacity and that most analysts expect the conditions to continue for at least another couple of years.

The industry suffered more than the primary insurers during the downturn in the insurance cycle, and the reinsurers are now in the vanguard of those companies benefiting from the so-called "insurance crisis" which has hit America as insurance rates soar and insurance-users find it increasingly difficult to secure adequate insurance coverage at any price.

If ease of entry marked the US reinsurance business in the 1970s, then speed of exit marked the 1984-85 period. The influx of new entrants contributed greatly to the decline in underwriting standards. Premium prices were slashed as companies battled to retain market share, leverage capital or benefit from high investment rates of return during an inflationary era.

But as underwriting losses soared, many of the new entrants began to quit the reinsurance business. The US insurance services office says that, over the last two years, more than 90 reinsurance providers withdrew partially or totally from the US market, and that over 20 of these withdrawals were involuntary. Their departure has accentuated the insurance capacity crunch in the reinsurance market and meant that, for the first time in a long while, the quality US reinsurers can pick and chose their business. This is a very welcome change from the state of affairs of the last few years.

Between 1980 and 1984, the US reinsurers' loss and loss adjustment expense ratios worsened, from one comparable to that of primary insurance companies to a ratio 15 points higher than primary insurers. In 1980, the combined ratio of the reinsurance companies monitored by the Reinsurance Association of America (RAA) stood at 107.3. By 1984 it had risen to 128.2.

The RAA reports that in 1985 the combined ratio of its members fell to 121.4, but it warned: "While this is a welcome change in direction, the absolute combined ratio continues to be disastrous for the industry, following on the heels of the two worst years for reinsurers in recent memory."

In the opening months of 1986 the recovery has continued apace. The RAA reports that a group of 70 US reinsurers posted a 107.7 combined ratio in the first quarter, compared with a 121.5 ratio last year. The comparison probably overstates the improvement, since several reinsurers, who had been included in last year's figures, withdrew from the market during the period, and there was a significant reduction in the number of serious weather disturbances.

Even so, it is hard to disguise the radical improvement in the fortunes of the companies remaining in the market. General Re, the biggest US reinsurer, reported more than a doubling in its second quarter operating income before capital gains to $72.6m. Its earned premiums jumped by 71 per cent to $640.9m in its second quarter, and the company reports that "the demand for quality property-casualty reinsurance continues to be very strong." Over the last year it has raised more than $600m of new capital, which is enabling it to write a substantially increased premium volume.

General Re's experience underlines the improvement in the industry's fortunes. The RAA says that net premiums earned by the 70 biggest insurers increased by 51.1 per cent to $2.4bn in the first quarter, and that the policyholder surplus rose by 46 per cent to $5.4bn.

Mr Richard Blum, president of Guy Carpenter, writing in a recent edition of Marsh & McLennan's viewpoint quarterly, said that the reinsurance industry had returned to managing risk in a business which showed more substantial risk "than ever before."

"Leverage is higher, the tail is longer and the underwriting variables are even more complex. This higher risk factor will require a higher potential reward to attract the needed capacity," he said. And he forecast that the numbers of reinsurers would dwindle; there would be a virtual disappearance of "naive capacity," and offshore facilities woud confine future operations to parent-related business.

Mr Blum estimated that the combined ratio of the US reinsurance industry in 1986 would drop to 115, and that the overall return should be about 10 per cent of statutory equity. "The industry will then be back on track in 1987, with a combined ratio of about 108 per cent to 110 per cent and return on statutory equity above 15 per cent." And 1988 would probably mark the top of the next cycle, Mr Blum predicted.

While the US reinsurers are enjoying a long-overdue improvement in their financial fortunes, many of them are uncomfortably aware that there are still a number of problems which could threaten their profitability over the medium term. The biggest of these problems is "uncollectible reinsurance." Some insurance companies, which have reinsured some of their risks with other reinsurers, are beginning to find that they cannot collect the money which they are owed when the claims begin to flow.

Mr Daniel McNamara, president of the Insurance Services Office, echoed the opinion of many observers earlier this year when he suggested that uncollectible reinsurance could be "the greatest single risk to a solid financial recovery."

"The seduction of cheap reinsurance was a major contributor to the financial disaster of the past several years—and an ominous final accounting of these transactions may still be in store for some insurers," said Mr McNamara at the annual meeting of the Insurance Services office, in January.

He stressed that the insurance industry was now critically dependent on its reinsurers—"a segment of our business that has been very wounded financially over the past few years." Last year, A. M. Best, which monitors the health of the insurance industry, lowered its ratings for 55, or half, of the reinsurers which it rates, while raising the ratings for only 4 per cent.

"Fuelled by bargains in the reinsurance and retrocession marketplace, amounts claimed as reinsurance recoverable have grown from 60 per cent of industry surplus in 1982 to more than 85 per cent of surplus. For reinsurers themselves, amounts recoverable from other reinsurers have skyrocketed from 65 per cent of reinsurers' surplus in 1982 to 120 per cent in 1984. With amounts claimed as reinsurance recoverable for the industry at over $50bn, reinsurer collapses could have widespread repercussions," warned Mr McNamara. The figure had increased to $70bn by the end of last year.

Many executives within the reinsurance industry agree with Mr McNamara's assessment of problems, and say that there is no such thing as "cheap" reinsurance. It is well known by many in the industry that many of the reinsurers that accepted risks will not be able to pay, say industry analysts.

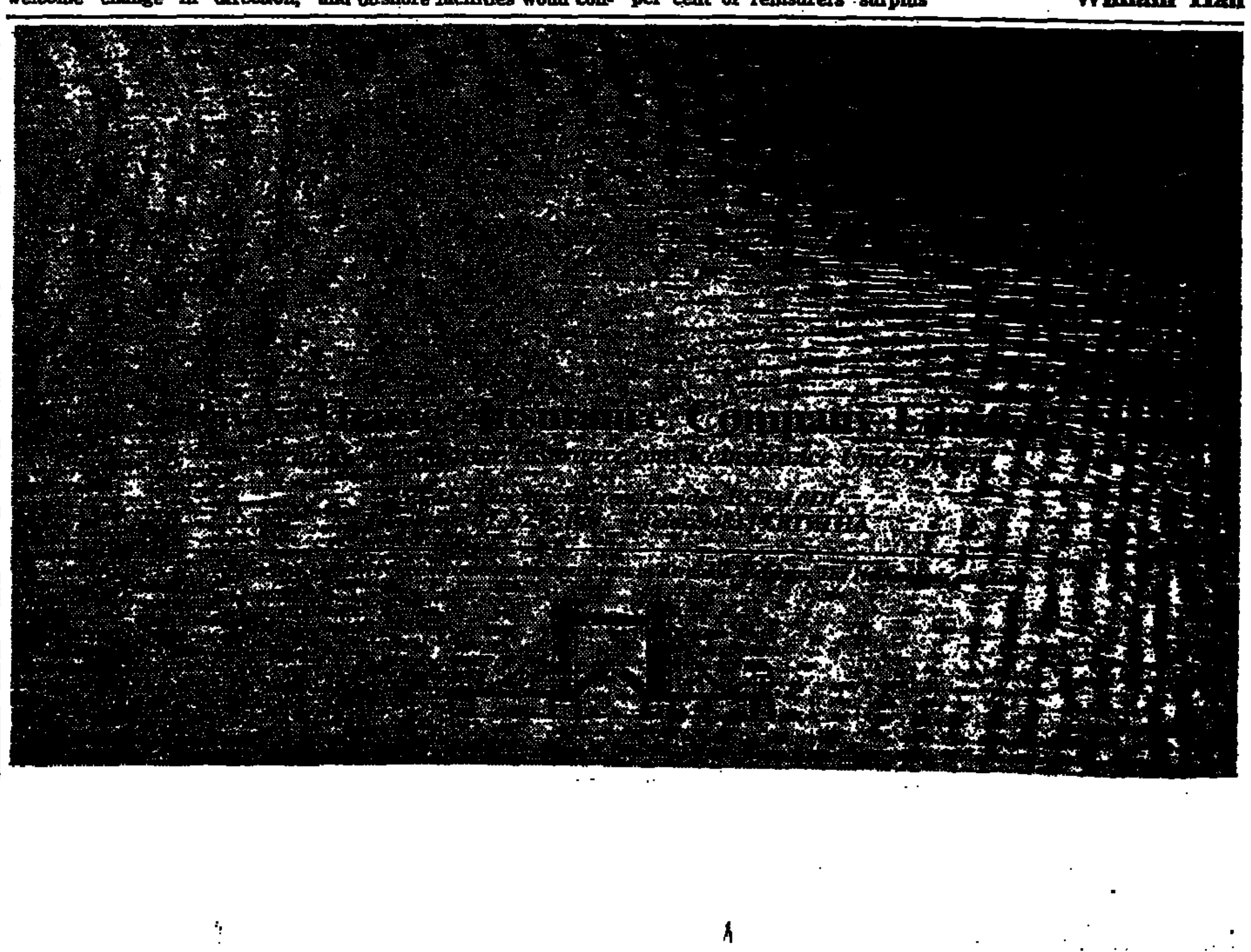
They have been watching the efforts of the California Department of Insurance to rescue Mission Insurance. Mission, which was placed in conservatorship by the California Insurance department last year, is one of the biggest insolvencies in the history of the US insurance industry. Regulators stepped in after examinations had shown that the Los Angeles-based company had a surplus deficiency of $168m.

Mission had expanded aggressively in the reinsurance business, and owed money to many other insurance companies. The Californian authorities say that their rescue plan, announced earlier this year, would help avert a major liquidation that could otherwise "start a domino effect that would precipitate an industry-wide crisis." The fear is that Mission's problems could spill over to other insurance companies which are unable to collect on reinsurance they placed with Mission.

The problems are complex, but one senior executive of a major reinsurance company in the US described the issue of uncollectible reinsurance as "a very major problem," and said that a "great deal of the surplus of US insurance companies represented by insurance recoverables will prove not to be recoverable."

While some analysts have suggested that the problem is localised among smaller fringe companies, not all agree. "There were very few primary companies or captives that were not enticed by the wailing of the low-cost reinsurance siren," said Oppenheimer & Co, the New York brokerage firm, in a recent study of the problem of reinsurance recoverable.

William Hall



Liability reinsurance

Losses hasten departures

ONE ASPECT of the crisis that has developed in the US product liability insurance business over the last few years is the problem of inadequate pricing and escalating claims. Another is the parallel course run by the reinsurance sector, plagued by the same disease of short-sighted, cut-throat discounting that took too little account of potential liabilities.

In a precise mirror of the difficulties encountered in the primary insurance industry, the reinsurers are now suffering from exactly the same capacity problems.

The capacity shortage is *linked directly to* a sharp decline in the number of companies operating in reinsurance, and the unwillingness of those who remain to write business under the discounted terms prevailing until about 18 months ago. Mainly because of heavy losses, there has been a wholesale departure of reinsurance companies from the product liability sector in particular, trimming the numbers of sizeable concerns from 120 to about 60.

Many large-scale businesses, attracted into the sector during the 1970s when premium income was an attractive source of funds for investment in high yielding securities, have stopped underwriting, taken heavy losses, or left the business altogether. Among these are insurers set up by large industrial groups diversifying into financial services, including Armco, the steel group, Phillips Petroleum and Dana, the car components company.

The problems of these businesses have sharply reduced the amount of capital available for reinsurance in the US. At the same time, the supply of available reinsurance has come under pressure from much tighter criteria for taking on new business.

Rates for reinsurance have gone up by 50 per cent in some cases. In other lines it has become practically impossible to find reinsurance because the companies no longer want to write business at prices customers are willing to pay.

The result of these new policies, has been a sharp overall improvement in the performance of the reinsurers that have remained in the business. A sample drawn from a very broad base in the industry, including independent reinsurance companies, as well as the reinsurance departments of the primary insurers and reinsurance pools, showed a significant upturn in underwriting results last year, according to the Reinsurance Association of America.

The average combined ratio of 70 reinsurers in these categories fell to 107.7 per cent last year, said the association, compared to 121.1 per cent for a similar group in the previous year. Within the overall rating, the loss ratio element declined to 82.3 per cent from 91.8 per cent in 1985, while expenses were also cut back to 25.4 per cent from 29.3 per cent.

Much higher pricing played a significant role in the turnaround, as net premiums written increased to $2bn from $1.5bn. As a result of this upturn in prices, US reinsurance companies in aggregate are estimated to have swung back into marginal profit last year, after losses of about $10m in 1984, and a steep decline in profitability from the peak of $680m in 1981.

For those companies that have been strong enough to struggle through the crisis, the changed conditions have presented a clear opportunity for growth. Indeed, the big reinsurers, such as General Re and Kemper, have been busily preparing to take advantage of the shakeout. Kemper, for example, has pumped $100m of new capital into its reinsurance division since the beginning of 1985 to take advantage of the sellers' market, and Wall Street expects a strong recovery in profits in this segment of the group's business.

General Re, the largest US reinsurer, has had two equity offerings within the last 12 months as business has flooded in from primary insurers concerned more with reinsurance collectability than with price.

The capacity crunch in reinsurance and the constraints it has placed on primary insurers, has been an aditional factor behind the growth of new offshore insurers willing to take on risky corporate property and casualty lines.

One of these, the American Excess Insurance Association, was put together this year by *two* brokerage companies, Marsh & McLennan and Johnson & Higgins to provide corporate coverage in the band from $25m to $75m.

This has proved to be a difficult area for companies to find coverage, and one in which many US businesses are insured through a variety of hotchpotch arrangements. The new insurer, backed by a number of large insurance companies, is aiming to provide a coherent coverage plan, while clearly limiting the individual exposure of the different insurers behind the scheme.

The other insurers have also been set up off-shore with the financial backing of a number of corporate sponsors to cater to their own insurance needs. Both of these insurers — ACE and XL — were organised by Marsh & McLennan and Morgan Guaranty, and have raised their basic capital from their corporate sponsors. They then offer property and casualty lines which the sponsors have not found available elsewhere.

Together the two schemes are *aimed* at providing insurance of between $25m and $200m. Ace takes on policies of over $100m up to a limit of $200m — the type of high-risk lines which have become extremely scarce in the wake of highly expensive disasters such as the fatal gas leak at the Union Carbide chemical plant in Bhopal, India. XL's coverage *starts at $25m and runs up to* $100m.

These plans have done something to fill the big vacuum that developed in the wake of the insurance industry's problems in 1984 and 1985. Great gaps remain, however, and many industrial companies are still left without adequate insurance — indeed, both Ford and American Motors, in the car-manufacturing sector, have indicated that they are now fundamentally underinsured.

This is a situation which is bound to attract new reinsurers, particularly as profits begin to flow back into the sector, and there are now indications that foreigners are beginning to return to the US to take advantage of the new price régime.

Terry Dodsworth

The brokers

Static business drains capital

WITH THE next round of renewal negotiations on the horizon, many brokers in the London reinsurance market feel they have hardly had time to recover from 1985's marathon season. Last year many treaties were not completed until two or three months after their nominal *January 1 1986 start.*

Mr Christopher Huxley, insurance brokers' analyst with County Securities, believes that this year will be "no better" than 1985's "shambles" as it has become harder to place all kinds of business, other than marine, in London—and capacity is generally limited.

Mr Thomas Greene, president of Alexander and Alexander's reinsurance subsidiary, said that the market "is still incredibly hard." So, while in the primary market conditions eased between January and July (when the mid-year mini-season is underway), this was not the case for most types of reinsurance risks—although an easing of property business did take place.

The problems of placing business for clients has two important sides to it. Many underwriters have cut back exposures to certain classes of risk—for example long-tail US accounts. Second, in response to *rising premium rates* many clients are reducing their orders.

US casualty business is the archetypal long tail that has led to the most severe capacity problems. According to James Capel & Co: "Insurers have been held liable for claims in relation to such risk issues as asbestosis or pollution under policies written decades ago."

Courts have made very considerable awards, even sometimes after policy limits have been passed. The reaction of many in the market — both primary and reinsurance—has been: "We do not want to write any more such risks." Others have tried to draft exclusion clauses (history is on the side of the lawyers with these), or altered underwriting criteria.

Such is the scale of the problems that higher proportions of this business are staying on the books and not being widely spread around the *market, which in turn is a* drain on capital.

The novel "claims made" policy wordings have been introduced, but these have not proved to be a panacea. Many brokers want to see how they will work out in practice before they leap in—and, in the meantime, no commissions are earned on business that is not written.

While rate increases do now *appear to be slowing down the* rises are still significant, given the high base level reached. Travellers' average commercial line rate increases for small and medium-sized customers have dropped from the over-50 per cent-a-month level (over the same month in the previous year) reached in mid-1985, to under 30 per cent.

Reinsurers are now turning *towards excess-of-loss basis* policies rather than the proportional. The attraction is that commission from excess-of-loss business is taken almost immediately after a treaty has been agreed.

For those brokers specialising in proportional business this change became marked in 1985. Those firms with a wider spread have so far seen one area rise at the other's expense. However, the growth of reinsurance broking incomes is going to be distorted by the timing differences implied by the switch to excess-of-loss from now on.

Exchange rate movements are having an adverse impact on brokers' receipts this year. And as London market costs—salaries account for about 60 per cent of the total—are in sterling the gap widens as the pound firms against the US dollar.

Forward selling of dollar revenues and hedging generally should mitigate the currency factor—but not entirely if the pound averages $1.50 on the year, or stronger.

Cash balances have become an important source of income to brokers—although one that is *watched carefully* by *Lloyd's* and others to see that it is not just over-tardy payments that are filling the coffers. In 1985 many brokers earned more, proportionately, from their cash and investments than they did from brokerage fees. Lower interest rates could hold this source of income in 1986—although it is unlikely to fall, as the balances are still trending upwards.

Terry Povey

Underwriting agencies

Back to London by the agency route

THE ROLE of underwriting agencies in the UK reinsurance market has been going through a dull patch in recent years following a few problems and more widespread losses by the principals during the rough years experienced by both direct insurance and reinsurance.

The use of an underwriting agency is a convenient method for an overseas insurer to get into the UK insurance and reinsurance market comparatively quickly.

The underwriting agency will know the local insurance and reinsurance market, both the supervisory requirements, the insurance brokers and intermediaries and the nature of the risks being undertaken. *The agency will for certain be* already managing business for several other principals.

The terms on which the agent operates will be based on the agreement with the principal. In *general*, the agent *under*writing on behalf of the principal up to agreed limits, with the principal accepting the risks. Thus, the agent will set the premiums and the terms of the insurance or reinsurance on behalf of the principal but he will not be running any of the risk.

Remuneration is generally based on the amount of premium income, rather than on the bottom line profit and this feature has resulted in problems for the overseas insurers using some of the lesser known agencies.

The temptation is for the agent to underwrite for premium income to the detriment of the quality of the business being taken on the books since the principal carries the risk.

*Such a move would even*tually show up in the bottom line result and alert the principal. However, the agent is responsible for setting up the reserves on the business *written—a subjective judgment* in the UK in the absence of any statutory reserving position, particularly reserves for IBNR —claims that are Incurred But Not Reported—the ultimate liability of the insurer.

This potential conflict of interest *faces* every agent in *his* operations. The problems occurred not only when agents cut corners in their underwriting to boost premium income, but also because some accept premiums and risks beyond that agreed in the agency agreement thus compounding the financial problems.

Not surprisingly in a very soft market, as seen in recent years, very heavy losses were incurred by the principals from some of their agency operations. Reinsurance business was *hit even harder, because the* premium volumes are that much greater and the underwriter is once removed from the risk, relying on the information provided by the *direct insurer and the broker.*

The result of these problems was an exodus by the principals from using the London agency market—mainly those which has only recently come in. The long-standing agency agreements with the established agency *firms* held up very well.

Overseas insurers were considering whether to operate in the UK to establish their own presence in the market. If the intention is to become a major player then this makes good commercial sense anyway. Some insurers have done this on the back of the revival in the insurance market with the widespread hardening of premium rates.

However, there are definite signs that overseas insurers are also coming back to the London market through the agency *system* but are being much more cautious in their approach.

First they are using those agencies that have been established for some years and which have set up a reputation for *efficient operations.*

Secondly, the overseas insurers are taking much more care in setting down limits and conditions under which the agent operates.

The agents themselves are ensuring that the principals agree *to limits* and classes together with agreement on underwriting policy. This should be renewed every year with the principals.

The principals themselves ought *to* ensure that the agent is keeping to his mandate, not an easy task when the principals are ignorant of the insurance climate and conditions in the UK.

Most of them are based in countries where insurance operations are much more regulated by the authorities than in the UK.

Bluntly, *in the past, principals* have been too trusting of their agents and in a minority of cases have been let down.

The agencies themselves can do more to restore confidence with *overseas insurers. One* method is to consider forms of remuneration other than commission on premiums income. Since the aim of the principal must be to achieve a bottom line profit on the insur*ance operations, then remunera*tion in the form of a fee plus profit commission would lessen this premium growth temptation.

However, *it* will not remove the temptation to understate the reserves in years when trading has been difficult.

In the UK, the actuarial profession, dominant in the long-term field, is slowly moving into the general insurance sector in many areas—rate fixing and setting reserving levels. This is not to decry the vast majority of underwriters and *agents who do an efficient* job in setting reserves.

But there has been a general under reserving situation in many sectors of the UK insurance industry.

Eric Short

Life

Problems set by Aids and fraud

LIFE REASSURANCE is concerned primarily with the risk aspects of the business. As such, it tends to operate out of the limelight, compared with the more glamorous investment side of direct life assurance operations, even though there are very large sums involved.

However, in the past year or so, life underwriters in the UK have been faced with two major problems that have hit the headlines—Aids, and fraudulent death claims.

The rapid spread of Aids—Acquired Immunity Deficiency Syndrome — and Aids-related conditions has severely affected the US life assurance industry. This has been hit hard by death claims relating to people affected by Aids before the life companies could take the necessary underwriting action.

The UK life assurance industry, having been put on its guard by the experience in the US, is in the process of taking what it considers to be the necessary corrective underwriting action. As usual, the lead in this matter has been taken by the major reassurance companies operating in the UK.

Many life companies, following the recommendation of the Mercantile and General Reinsurance Company, now include a specific question on their proposal forms relating to Aids.

This action, which has aroused considerable opposition from a variety of organisations, would appear to have been taken just in time. The life companies are now starting to report death claims from persons struck down by Aids. It also highlights the dominant role now played by reassurers in the life underwriting field.

Underwriting is essentially based on adequate statistical information, backed by a knowledge of medical conditions and medical developments as they affect life expectancy of individuals.

Life reassurance companies receive business from a variety of direct life companies, and as such build up a far wider and deeper pool of experience covering a variety of medical conditions. As such, their underwriters are in a sounder position to assess the risks involved for each condition.

For example, a direct life company may receive one or two proposals a month where the individual has a serious heart condition. The reassurer would receive several times this number from the various direct life companies with which it did business.

Reassurance companies, in contrast to most direct life companies, operate on a worldwide basis. They have access to medical statistical data and life underwriting experience in several countries. It was this around-the-world contacts that enabled reassurers in the UK to spot the problems the US life assurance industry was having over Aids claims.

Finally, the reassurers retain eminent medical personnel as consultants, people experienced in the practice of life underwritings. For example, heart transplants have certainly improved the quality of life for those individuals receiving them. But it has not improved their life expectancy to the point that they are acceptable for life assurance.

This combination of data and experience has enabled the life reassurance companies to take the lead in progressively relaxing the underwriting terms on people suffering from a major medical condition such as heart impairments, high blood pressure, diabetes and cancer. In many cases, terms can be offered to individuals suffering from such complaints that in previous years the proposals would have been declined.

Indeed, the onset of Aids has reversed the trends of mortality improvement and a relaxation of underwriting attitudes by the direct life companies. They are now relying more and more on the reassurance companies for underwriting guidance, if not the actual underwriting decisions. This applies particularly to many of the newer linked-life companies, where the reassurer is their underwriter.

Thus the direct life companies have been only too willing and ready to follow the underwriting recommendations on Aids and aids-related conditions made by the reassurance companies.

Mercantile and General Reinsurance, surveying the medical knowledge and experience available to date, is recommending that persons diagnosed as having Aids or Aids-related conditions are declined, while persons with HTLV-III antibody test positive, but otherwise symptomless are postponed five years.

These recommendations have been widely adopted by the direct life companies.

However, Aids is a comparatively recent phenomenon, and the reassurers admit that the information on which these underwriting decisions are based is far from adequate. They are pooling data on claims and exposures so as to get sufficient information to decide on more precise underwriting criteria, with the hope that the current stringent conditions can be relaxed.

This wider pool of business enabled the reassurance companies to uncover a series of fraudulent death claims that were being made against the direct life companies.

These related to life policies taken out in the UK by certain people for substantial levels of cover, often in excess of £100,000. Subsequently, their deaths were reported to have occurred in the Indian subcontinent and elsewhere, and accompanied by a death certificate that was not a forgery. Motor accidents and death from snake-bite were given as two common causes of death. Life companies pay out on death claims on proof of death and ownership.

The underwriters' suspicions were aroused when it was seen that the people concerned had taken out policies simultaneously with more than one life company—using both traditional and unit-linked companies. Though they had used different direct life companies, the reassurance often came to the same reassurance company.

This promoted the reassurers to investigate further. The amount of the claim was large enough to justify the expense of sending an investigator to the site of the alleged death. In many cases he was able to obtain sufficient evidence to cast doubt that death had occurred, and for the life company to refuse to pay the claim.

The reassurance companies are watching the position closely and advising the direct life companies on the delicate task of dealing with these cases.

Eric Short

The Banks

Question-mark over LCs

TIME WAS when banking services to the world's reinsurance community revolved around one key product: the letter of credit.

Pioneered by Citibank in the mid-1960s, letters of credit allowed reinsurers to meet American regulatory requirements for reserves against future claims on reinsurance policies ceded out of the US.

Letters of credit for reinsurance purposes remain a multi-billion dollar business for the seven or eight US banks active in the field. But 1986 has seen further evidence that Citibank and its rivals like Bankers Trust now take a much broader view of the kind of services they can offer to reinsurers.

Why? First, there is still a question-mark over the future treatment of letters of credit by US banking supervisors—which gives banks an incentive to develop other services.

Second, an era of exchange-rate volatility makes the reinsurance business—dominated as it is by cross-border flows of funds—a natural market for selling treasury risk-management products (though, so far perhaps, the insurance brokers, rather than the insurers, have been the most sophisticated customers).

And, third, a declining dollar has helped to interest European companies in buying US insurance institutions—offering bankers a chance to pick up merger and acquisition fees.

Back in January, the Federal Reserve Board issued for comment a proposal to impose on banks' balance sheets some form of reserve asset requirement in respect of letters of credit. In late August, the Fed still could not say when the proposal would be finalised—though bankers believe it will opt for a tiered system, requiring different balance-sheet weightings, depending on how the letter of credit is secured, by cash or by government securities.

In the meantime, says Mr Ian Brimecome, a Bankers Trust vice president in London: "Letter of credit availability is going to be tight again this year." If letters of credit have to be counted on the balance sheet, like any other risk, some observers see the price rising again above the present basic of about 0.25 per cent per annum for a 20-year cash covered LC.

Reinsurers without long-standing and wide-ranging relationships with banks in this specialist business (from which British banks are still largely excluded by US regulations) may also continue to find it hard to raise an LC.

Already, more reinsurance companies have turned back to the old-fashioned use of US trust funds to hold the deposits required by regulators. Here, the bank which has lost some potential LC business can still play a part by helping to make such arrangements more flexible—easing the burden to the reinsurer which has to tie up cash.

One way for the bank to help, said Bankers Trust's Mr Brimecome, was to try setting up pooled funds covering a number of reinsurance risks, and to offer fund management services.

Citibank, meanwhile, still holds perhaps 60 to 65 per cent of the reinsurance LC market. An index of its activity was a recent $320m syndicated LC in which it participated with other US banks. But since about 1982, the approximately 140 staff in its London and New York insurance divisions have been devoting more and more time to offering clients Citibank's "financial engineering" products, such as foreign currency or interest rate options.

"There has definitely been a realisation that insurance companies need to pay more attention to the financial side of their business," said Mr Stafford Crane, a vice-president in Citibank's London insurance division. "Particular bank products or Eurosecurities can solve a specific problem for the reinsurer."

For instance, Citibank has devised instruments to help a reinsurance company—taking (say) a seven-year risk on reinsurance-to-close from a Lloyd's insurance syndicate—which wants to eliminate the risk of poor investment returns during that period.

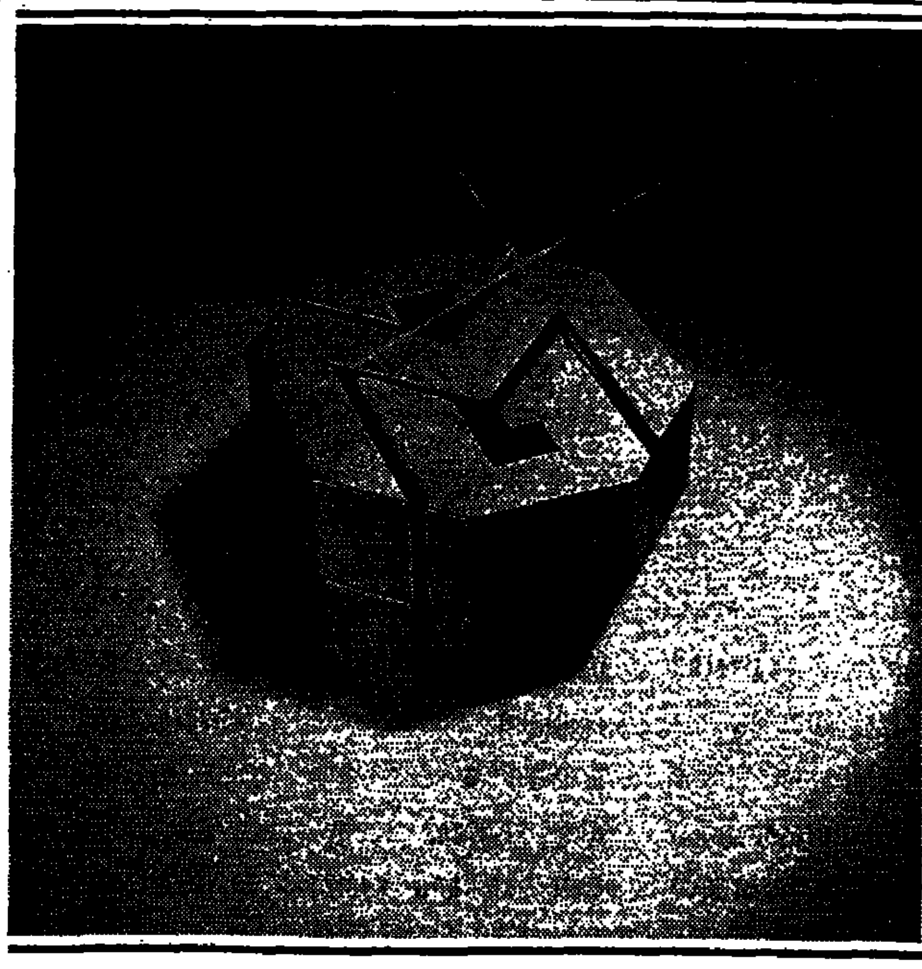
One problem here for any bank is that European regulators may not appreciate the true nature of some Eurosecurities products—mistakenly seeing them as forms of speculation which entail extra risks for the reinsurer rather than as ways to reduce risk.

"The European insurers are nearly hamstrung by regulators," says Mr Brimecome, of Bankers Trust. Over the past two years, his bank has switched strategies to stress giving a high-quality, in-depth service to a reduced clientele of about 50 companies involved in reinsurance—with an extra stress on corporate finance rather than on pure letter-of-credit business.

"There's a lot more interest on the part of foreign players interested in buying insurance companies in the US," Mr Brimecome adds.

Bankers Trust has, for instance, completed two insurance merger and acquisition deals in the past few months, and has another four or five under way. It is a field where the bank will find as its competitors the big US investment banks, like Salomon Brothers, Goldman Sachs, and First Boston—which acted as US adviser to last month's purchase of The Crump Companies by Sedgwick Group, the UK insurance broker.

Nick Bunker



Regulation

Learning to live with new rules

"RE-REGULATION" was the ugly term that pundits began using in 1986 to describe the new system for investor-protection to be set up in the UK by the Financial Services Bill.

But it could apply just as well to the bewildering range of proposals and new laws that emerged worldwide this year, and which affect insurers and reinsurers.

In markets as diverse as Australia, the Bahamas, the Netherlands and Singapore—not to mention various states of the US—the past 12 months have seen moves to restructure big chunks of insurance regulation.

Most usually, they have tried to stimulate market development at a time of big international changes in the financial services industry — but they have also had an awkward habit of extending controls and widening disclosure requirements.

Ireland's decision to pass a wide-ranging new Insurance Act, incorporating European Community directives, was one recent sign of this. It is partly an attempt to avoid a repetition of the kind of problems that led to the Dublin government's rescue of the troubled Insurance Company of Ireland in 1985.

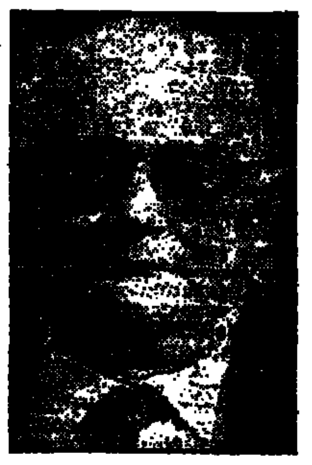
But the Netherlands presents one of the most interesting cases—and sums up some of the concerns motivating regulators in Europe and North America.

On January 1 1986 the new Dutch General (Non-life) Insurance Supervision Act came into force. One aim was to deregulate relations between banking and insurance, following a recommendation to that effect from the Netherlands finance minister a year ago. It has allowed banks to take up to a 15 per cent interest in insurance companies.

In that sense, it reflects regulators' attempts elsewhere to define their attitude to changes in ownership of the industry—hardly surprising in view of the amount of corporate activity under way. Mr Dino Marchetti, for instance, chairman of ISVAP, the Italian supervisory authority, has called for new regulations covering transfers in control of insurance companies.

And in Canada, proposed amendments to the Canadian and British Insurance Companies Act would give the finance ministers powers to block transfers involving more than 10 per cent of any federally-incorporated insurer, if held to be not in the public interest.

But the Netherlands did more than just partially deregulate the boundaries between banking and insurance. The 1986 act also brought what some Dutch insurers see as big supervisory changes, involving, for instance, much greater disclosure of information, and giving the supervisory authority powers to put an insurer under some kind of trusteeship or even wind up a company.



Sir Kenneth Berrill has made it clear the SIB would find it hard to take on responsibility for Lloyd's.

The US may yet produce important changes in insurance regulation as a side-effect of the liability crisis and of reinsurance company insolvencies—whatever is the final outcome of the battle between insurers and the state of Florida over its rate rollback law.

But in the UK, what did not happen in 1986 was almost as important as what did occur. The Lloyd's insurance community accounts for nearly 10 per cent of the world's reinsurance capacity, with other London companies and other reinsurance carriers bringing the City's total share to 20 per cent. If successful, moves to bring Lloyd's within the ambit of the Financial Services Bill could have led to new rules governing the activities of reinsurers.

True, the Labour MPs who called for the inclusion of Lloyd's in the new regulatory framework which would have meant placing it under the ultimate authority of the Securities and Investments Board, London's new watchdog—stressed that what they wanted to see was more protection for Lloyd's investors—that is, the underwriting members (names). They were not calling for tighter regulation to protect policy-holders, or to police the market's actual insurance activities.

But it is hard to see how, in practice, that distinction could have been maintained. An external body like the SIB trying to draw up rules to protect names might well stray over the frontier into actual regulation of the market's insurance and reinsurance business.

In fact, Lloyd's could still find itself covered by the Bill, which will not complete its passage through parliament for several months; but such an outcome seems highly unlikely.

First, Mr Leon Brittan, the former Secretary of State for Trade and Industry, categorically ruled out inclusion of Lloyd's last year. Labour MPs failed to gain active Tory backbench support when they moved amendments deleting Clause 40, the provision of the bill which specifically exempts Lloyd's.

Second, the Neill inquiry, set up to review the workings of self-regulation in the market under the 1982 Lloyd's Act, will probably report in October—but that may be too late to affect the Bill, whatever the inquiry finds.

Third, and very important—Sir Kenneth Berrill, the SIB's chairman, has made it clear that the SIB would find it very hard to take on any responsibility for Lloyd's at a time when it is already working flat out to cope with the complexities of its task in the City at large. Sir Kenneth's views have tended to carry considerable weight with those Conservative MPs who watch City matters closely.

Nick Bunker

Litigation

Informal deals found wanting

THE PAST decade has seen a revolution in the London reinsurance market, from self-rule to a rule of law imposed through litigation.

Transactions hitherto conducted on scraps of paper and governed by custom-and-practice have come under the scrutiny of the Commercial Court, and have been found wanting.

Two cases of significance have emerged over the past year.

The first was Vesta v Butcher (December 20 1985). It involved a Norwegian fish farm, insured under a Norwegian contract which was reinsured under an English contract subject to the same terms—"back-to-back" contracts. The question was whether the reinsurance contract should be interpreted according to Norwegian or English law.

Mr Justice Hobhouse, in a gargantuan but utterly lucid judgment, held that where a reinsurance contract is back-to-back with the original insurance, the legal effect of the clauses defining the cover should be the same in both contracts. This meant that, though the proper law of the reinsurance contract was English, the construction and effect of the clauses were to be determined in accordance with Norwegian law, in the same way as they were in the original contract.

Thus English law retained its nominal status as the proper law of the contract, but in reality Norwegian law prevailed.

The case reflects the policy of the Commercial Court to have constant regard to the practicalities of the commercial world.

As Mr Justice Hobhouse pointed out, the aim of the London reinsurers in *Vesta v Butcher* was indirectly to market insurance in foreign countries. The business reality was that the contract marketed was a local contract fronted by a local insurance company, and the reinsurance framework was only a mechanism to achieve that end.

It would be commercially unrealistic, he said, for reinsurers to rely on an English law consequence which formed no part of the scheme of insurance, and which might have made the insurance package unsaleable to overseas insurers.

The second case was *South Carolina Insurance v De Zeven Provincien (FT August 1 1986).* There the House of Lords held that re-reinsurers involved in an English action against US reinsurers could proceed in the US against non-parties to the action for pre-trial discovery of documents.

English law only permits discovery as against other parties, and it was argued that to allow access to foreign procedural remedies would interfere with the procedure of the English court. Had the argument succeeded, it could have hamstrung reinsurance litigants who, by the trans-world nature of their transactions, are almost inevitably separated by intervening foreign law systems from information necessary to their case.

The effect of the decision will be general and not limited to reinsurance. It joins others in rubbing at the edges of English law to facilitate the dovetailing of foreign law systems, in the interest of practicality as well as international comity.

Those two cases apart, there has been a lull in reinsurance litigation over the past year.

Solicitor Robin Williams, of McKenna and Co, who has been involved in reinsurance for over seven years, thinks there is less litigation because more people are becoming aware of the dangers of transacting on the back of an envelope and are making sure they are protected.

There has been some resistance to penetration of the market by the legal world, but, he says, "Commercial Court decisions have shown that the law is capable of fitting around what goes on."

Those in the marketplace are coming to terms with the fact that there is a system of law within which they have to operate. They are beginning to realise the value of getting the contact right in the first place, and that legal advice obtained at an early stage can help to eliminate future litigation.

Rachel Davies

Technology

Coping with whatever the market may fling

THE INSURANCE business lends itself well to computerisation. It turns around complex calculations, precise figures, large volumes of historical data and carefully worded documentation, all things computer systems cope with particularly well.

The systems that have been built for reinsurers do not, in principle, differ greatly from those developed for general insurance. In practice, however, special features and facilities have to be built in to cope with the nature of the reinsurance business.

Probably the most important of these is flexibility.

Insurance companies can have systems tailored to specific market areas—life, for example, or the motor business. Reinsurers, concerned only with laying off the total risk, have to be able to deal with anything the market flings at them. "Each company has its own variation on the flavour of the month," according to Mr James Dawson, data processing manager at Mercantile and General Reinsurance. "We have to be able to cope with everything."

Reinsurers may also advise and give guidance to smaller insurance companies, assessing whether a particular risk—life insurance for a popular singer, for example—is too great for a company to handle, and making the arrangements with other insurers to spread the load.

Such expertise demands considerable technological back-up. The computer system must be able to support analytical methods and the creation of statistical records often stretching back many years—the "long tail" of the insurance business.

Mercantile and General, wholly owned by the Prudential and the UK's laregst reinsurer, wrote its own system and runs it on a large IBM mainframe, a 3081 model K.

Over the year it has upgraded and modified the system to take advances in computing technology into account. Now it uses IBM's flagship operating system (the software which controls the computer itself) MVS and the software programs CICS and DL1 to provide on-line enquiry and file-updating facilities.

Reinsurers do not have the problem of having to support large branch networks — M & G have offices only in Cheltenham and London — but communications with overseas branches can be difficult and expensive.

Mr Dawson says that it is only recently that the cost of computer to computer communication through packet switching technology has become economical enough for consideration.

Packet switching is an advanced technique, generally reckoned to be the most economical method of sending computer data through a telecommunications network. The information is "snipped" into packets of electronic blips each with its own electronic envelope and address.

Intelligence in the network routes the packets through in the most efficient way.

The development of high speed, high quality facsimile transmission, however, has filled the gap. "Facsimile has been really quite a Godsend," Mr Dawson says, "It has given us a marketing edge. You cannot send enough information over and documents, of course, are impossible."

The UK's second largest reinsurer, Victory, based in Folkestone, is also an IBM user. It operates a small mainframe, the 4381 Model 2, supporting some 190 terminals, 150 in Folkestone and the remainder spread over three London offices.

It also wrote its own system. Mr Barry Sharp, its data processing manager, said it had looked at software packages—generalised software written to suit any reinsurance company if it was prepared to fits its business to the package rather than the other way about—but had found them wanting.

"We would have had to do so much custom work on the packages that we decided it would be best to build our own system," he said.

The systems are complicated by the fact that reinsurers undertake risk in two ways—treaty business, where they assume a portion of the total risk of a portfolio, and facultative business where each policy is considered on its own merits.

Such complexities make writing a reinsurance software package difficult but there are a number in existence, some used by major reinsurers.

One of the best regarded of these packages is Solar, written and marketed originally by the Cross Computer Group, now part of BIS, the UK software house best known for its Midas banking software.

A Norwegian package, SICS, has also been widely installed.

What does the future hold? The reinsurance business, while it depends on computers for its efficiency, is conservative when it comes to the more advanced techniques.

There is little sign, for example, that they are yet impressed by expert systems, one of the first applications of artificial intelligence to be applied to the business world.

The idea is that the experience and skills of one or more experts in a particular field can be stored in a computer's memory in such a way that queries can be answered in an apparently intelligent way.

Such systems could be used to archive the knowledge of a reinsurance expert on his or her retirement, for example, so that it could be recalled to help assess future risks.

The insurance business as a whole is interested in these new and powerful tools. It has established an expert systems club "Aries" under the aegis of the Alvey directorate, the government-sponsored agency co-ordinating UK's efforts in certain key technologies.

Two projects, clothing trade fire risk assessment and buy/sell decision evaluation in equity investment have already started.

Both the Prudential, which owns M and G and Legal and General which owns Victory are members of the Aries club.

The reinsurance business has yet to make extensive use of value added networks (VANS), another key business technology now being exploited by the general insurance business.

It has to be said, however, that progress towards VANS which offer insurers the cheapest and most effective way of communicating with each other has been impeded to some extent by a lack of industry standards.

It would be a major step forward if standard message formats could be agreed across the industry in the same way that the world's banks have agreed standard messages on Swift, the world-wide bank messaging service.

Geisco, a large US computer services company and VANS operator, has been trying to interest brokers and insurers in its idea of a "global electronic register" to combine the functions of an extensive library of information about clients and their contracts, so replacing much of the paperwork which takes up so much time in the industry.

It is an idea the reinsurance business might adopt to advantage.

Alan Cane

Security

Forget the good old days

TEN YEARS ago security committees existed in most companies only to worry about locks and bolts. As recently as five years ago, a senior consultant of a major management consultancy firm at a security analysis conference devoted his entire presentation to security of internal systems and procedures.

Today, it is said that, now the market has been cleaned up and cleared out, worries about security are a thing of the past.

Many can remember the days when the bulk of a company's reinsurances were placed on a fully or partially reciprocal basis, where you dealt with your friendly reinsurers on an "old boy" basis. You tried sincerely to make a profit for your reinsurers, although some described it as a couple of drunks swapping losses. Are people now saying that we can revert to the trusting good old days? They really ought to know better. Those days are gone forever.

It is not possible to quantify accurately how many hundreds of millions of pounds companies collectively have already lost as irrecoverable reinsurance, or for which they are now making provision as doubtful recoveries. A number of insurance companies have beaten their breasts in public; but many more have nursed their wounds in private, either noting in their accounts that provision has been made, just concealing the loss among bad debts, or more honestly bearing a revenue account loss under the guise of increased claims incurred.

Very few admit that they had overstated their profits, their free reserves, and their solvency by assuming that all losses recoverable from reinsurers were a good asset. I doubt if anyone has properly costed their time and money spent in dispute, litigation and just plain "hassle."

And what has it cost the brokers? How many staff do they now employ to clear up the mess? How many losses are they funding rather than admit they cannot collect?

Those insurance companies or brokers that are at the sharp-end of this, those that have shouldered the burden and have counted the cost, know that in nearly every instance it was their fault. The market environment created over-capacity, management fell into the trap: a misguided greedy matching of willing buyers and willing sellers of cheap and shoddy products.

Very few avoided this and in resisting these temptations suffered the agonies of being seemingly left behind in the race, finding little comfort in their knowledge that a few years is but a twinkling of an eye in the life of an insurance company. Day-to-day management, when resisting the pressure to match a long-prevailing mood in the market, is is very lonely place.

It is not so difficult to resist the temptations of cheap reinsurance today. First, there isn't any. Second, insurance and reinsurance companies have taken their collective bath. It has been, at long last, over the past year or two acceptable (even respectable) to strengthen reserves of prior years, write off irrecoverable reinsurance, make a great play about how the loss reserves have been calculated, and accept a colossal underwriting loss. There has been no losing of face to admit to having done what you now find everybody else has done.

Companies do not mean to let this happen again. Thus they are now rewriting their rules so as to underwrite avoiding the mistakes of the past, to reserve taking full account of all possibility of unreserved or under-reserved loss (discounting if they have to "save" their balance sheet) and to buy reinsurance from only first class security.

Thus the security committee is here to stay. All companies are (or should be) closely examining their reinsurance programmes, both to buy less and buy better. They are finding out accurately which companies are accepting so much of their treaty and facultative reinsurances combined that, if they failed, this would endanger their own solvency.

Companies are setting their own standards of acceptability, and, although they may be strongly influenced by the current rapid development of security-ratings, no buyer should rely on those alone.

This is all healthy. Good, strong secure companies are, if not in a position to dictate, at least able strongly to lead. The cowboys, or perhaps we should rather call them rustlers, have gone.

Those remaining in the business have either drawn back to husband their resources, or use them more sparingly; or they have increased or replenished their capital to take advantage of current market strength. However, already new investors have spotted what they believe to be an opportunity: that, in the good times, reinsurance is supposed to have all the advantages of a highly geared investment trust. New capital is coming in. Other companies, flush with what stock-analysts describe as under-utilised assets, will be under pressure to develop new product lines. Management, bored with having overcome old problems, will start to get new ideas.

It is thus difficult to foresee any scenario other than one of increased capacity and increased competition, but with many of the established companies that much more able to withstand another downturn. It is the well-capitalised, well-reserved and well-invested companies (besides being well managed) that will survive. It is those that are not, that will not, and must be quickly identified.

Insurance company failure, like any company failure, takes place because bad management has been allowed to fester and run wild. Some lack of direction from the top, or at the top, some misguided investor objectives, have created an environment for failure. There is no reason whatsoever to suppose that our industry is forever going to remember the lessons from the past or persuade hungry young men, and ambitious young companies, that reinsurance is not a certain money-maker.

The disease of poor security will always exist. The virus may merely rest latent for a while. Security committees will have to be vigilant for the old symptoms or for new ones. Insurance is hard enough as it is.

John Gardner

In Miami the Insurance Exchange of the Americas, after a faltering start, is beginning to find its feet

The US exchanges

Riding the storm and taking the eye

IT IS likely that 1986 will be remembered as the year when the world's insurance industry first began to take serious notice of the three fledgling US insurance exchanges in New York, Chicago and Miami.

While none of them are of the size to threaten Lloyd's of London's position in the world insurance business, they do provide a source of insurance underwriting capacity in an industry which is desperately short of capacity. In addition, they are beginning to attract the attention of a growing number of investors who want to participate in the current upswing in the insurance cycle. They may well have been forced to take some of the insurance risks which more established markets turned away, but the three exchanges have weathered the storm and are in a confident mood.

"There were many people in this business who did not think that the exchange would last six months. They were just as wrong as the occasional doomsayer we hear today who does *not believe the exchange will* survive another five years," says Mr David Sherwood, the former chief operating officer of the giant Prudential Insurance Company of America, who took over as chairman of the board of governors of the New York Insurance Exchange (NYIE) just over a year ago.

The NYIE is the oldest and largest of the three US exchanges, and the results of its members reflect the turbulent insurance climate of the past few years. Last year, gross written premiums, which had been growing rapidly, fell by 4.4 per cent to $309m; and the combined ratio, one of the best measures of the health of an insurance operation, deteriorated sharply as some NYIE members suffered heavy underwriting losses.

As a rule of thumb, a combined ratio under 100 per cent indicates an underwriting profit, and one over 100 per cent generally indicates an underwriting loss. The combined ratio of the NYIE in 1985 jumped from—137.3 to 152.3. This figure was distorted by the poor experience of inactive underwriting syndicates. Even so, the combined ratio of the active syndicates in 1985 was 137.6, which was considerably higher than the average of 121.4 for the US reinsurance industry.

The NYIE's latest annual report notes that many factors greatly increased the claim payouts of insurers, including unusually severe weather resulting in more-than-usual property damage from tornadoes, hurricanes and other natural catastrophes. Large increases in the number of lawsuits filed and the amount of judgments and settlements, plus cut-throat competition, all combined to produce a miserable financial performance for NYIE members last year.

Ranked in terms of its overall size, the NYIE is among the top 10 reinsurance companies in the US, and over the last four years it has suffered more than most from the collapse in insurance premium rates as insurance companies have battled for market share.

The results in early 1986 show only a marginal improvement. The NYIE reported a first-quarter aggregate loss of $8.8m, compared with a net loss of $11.3m in the same period last year. Gross written premiums in the first quarter fell from $80.6m to $66.6m, and the underwriting loss rose from $23.7m to $26.7m.

Mr Joseph Fahys, a former managing director of Marsh & McLennan, who took over as chief executive at the start of the year, says that the overall results are "still not satisfactory, but our syndicate members are encouraged by the trend." He notes that posted gross written premiums by active syndicates rose by 41 per cent to $50.1m in the first quarter, and that the policyholder surplus of the active syndicates rose by 19 per cent to $166m over the end-December figure. The combined ratio for syndicates actively writing business for the first quarter was 121.6 per cent, an improvement of 12 per cent when compared with the end of last year.

Many underwriters used 1985 to "rethink strategies, to slow down, to become more selective," *says the NYIE* in its latest annual report. A few of the early investors have reappraised their role in the exchange, and either stopped writing new business or withdrawn. "During the early years, these investors either looked upon the exchange as another outlet for their excess capacity or did not contribute sufficient capital for continued growth in the present market," says the NYIE.

Despite its recent poor financial performance and the withdrawal of some of its less active members, the NYIE's latest annual report paints a confident picture. It expects that a substantial amount of new capital will flow into the exchange to take advantage of perhaps the most severe capacity shortage in the history of the insurance industry. Soaring premiums should encourage a rapid growth in capacity and "the emergence of the exchange as one of the industry leaders in certain markets."

New York's upbeat mood is mirrored to a lesser extent at the Illinois Insurance Exchange some 800 miles away in Chicago. It opened for business at the beginning of 1982, almost two years after New York, and Mr James Skelton, its president, admits that it "languished through the soft market."

Unlike New York, which is biased towards reinsurance, Chicago has always wanted to operate as a direct insurer. However, during the depths of the insurance cycle, the exchange found that it was doing almost nothing else but reinsurance business.

As rates have moved upwards, this has changed, and the mix of business has switched back to primary and excess lines. The exchange now has 14 active syndicates with capital and surplus in excess of $85m—more than four times the figure when it opened. Mr Skelton says the exchange will probably do over $200m of business this year, almost three times last year's figure. The only problem is capacity, and he believes that the exchange needs 20 to 25 syndicates.

Some 1,300 miles south, the Miami-based Insurance Exchange of the Americas is also working to increase its capacity, to take advantage of the rapid improvement in market conditions. After a faltering start in April 1983, the Insurance Exchange of the Americas is beginning to find its feet; and Mr Arturo Toro Jnr, its chief executive, estimates that, in addition to the more than 40 staff on the payroll of the exchange, close to 400 others earn their livelihood from it.

It started with four underwriting syndicates and $6m in capital. Today the exchange boasts 22 syndicates and over $30m in capital and surplus. It is recognised in 17 states across the US, and, although it was initially designed to get much of its business from Latin America, it is now doing a much greater portion with US insurance buyers. Like New York, the Miami exchange leans heavily towards the reinsurance business; but, unlike New York, the vast majority of its syndicates are owned by wealthy individuals.

William Hall

The oil industry

Falling prices instil caution

FOR MORE than 20 years, the offshore oil industry has provided insurers and reinsurers with arguably their most lucrative business.

The past nine months has seen the oil price plummet, with a slight recent recovery. Prospects for its future level, in the face of a fragile Opec truce, are still uncertain. The oil industry has been experiencing its largest ever slump. Many companies' cash flow has been almost halved.

This must surely spell caution to insurers as well as reinsurers, that, on the oil side, the good days may be coming to an end.

The most dominant position in the area of offshore insurance has been held by the London Master Rig Cover. Its limit grew from US$15m in 1970, to $250m in 1975, $750m in 1980 and $825m in 1982.

The premium volume during the same period grew from $50m in 1971—that is, twice the exposure on any one risk—to $150m in 1975 (60 per cent of the limit), to $320m, or less than 50 per cent. Its present premium volume is $300m, less than 40 per cent of the limit on any one risk.

Claims have accounted for 60 per cent to 65 per cent of the premium volume. There have been no really major catastrophes, with the possible exception of the Alexander Kielland collapse.

Onshore oil and energy installations generate a premium volume of more than $700m. In terms of asset values, oil and petrochemical industries probably make up one of the largest insurance classes. Its premium volume represents about 0.15 per cent of total world life and non-life premium. Within the Arab world alone, the proportion of onshore oil premium is 3.5 per cent of this total. Arab markets account for about 20 per cent (or $140m) of the global premium generated by the onshore oil sector.

Is this affected by the oil price demise? "Not really," said one broker, 'it's six of one and half a dozen of the other." Although companies have cut their exploration programmes by 40 to 60 per cent, or in some cases abandoned them altogether, this class of business accounts for only some 10 per cent of the whole oil sector.

In the long term, there probably will be some effect, says ARIG, the Bahrain-based Arab Insurance Group. In the future, the present exploration cuts and the unliklihood of construction of new drilling platforms will affect new premium income.

In addition, it says, the fall in demand and price of oil has affected worldwide premium income derived from oil shipments. As far as the operating risks are concerned, it adds, both onshore and offshore, insurance coverage still has to be purchased to protect assets. Thus the effect of the price fall is minimal as the bulk of total oil premium comes from the coverage of such operating risks.

There is a similar picture in the US. For the physical damage class, there is no lack of adequate direct capacity, "especially in the offshore," says John Mobeck, president of Houston-based Energy Insurance. He adds: "That is because in the London reinsurance market, offshore rigs, or anything that floods, is their favourite."

On the casualty side, however, finding coverage for seepage and pollution risks is ,quite a different problem. This is because of the general disenchantment on the part of reinsurers for casualty business, on the London market or elsewhere. As a result, the number of participants in Bermuda-based Oil Insurers Ltd, a captive for a number of oil companies, has risen from a figure in the 20s some years ago, to about 43.

Of course, adds Mr Mobeck, laid-up drilling rigs do not generate as much premium as when they are working; but another problem has surfaced. Cash-strapped drilling contractors nowadays simply do not have the money to buy any insurance for any of their assets. "This adds another risk for the insurer, we have to know if someone is in financial trouble," says Mr Mobeck.

The previous decade's over-capacity in reinsurance was generated by the reinsurers themselves attempting to gain a larger market share.

Maria Kielmas

Companies in Europe

Top operators' earnings improve

ALTHOUGH FULL and final results are still outstanding, Europe's professional reinsurers have obviously been doing better for themselves.

At least on the part of major operators, earnings have been rising noticeably over the past year, and — failing some major disaster in the wings — look like continuing the upswing. The three top European companies have all signalled this general improvement.

World leader Münchener Rückversicherungs-Gesellschaft (Munich Re) forecasts a rise of some DM 10m for the year ended June 30 over the DM 44.6m profit figure for 1984-85. Swiss Reinsurance expects consolidated dated net earnings for 1985 to have been 15-20 per cent up on the previous year's SFr 120m. A dramatic turn-around was recorded by the London-based Mercantile and General Reinsurance for last year, with after-tax profits of £13.4m following a corresponding 1984 loss of £30.8m.

Even more encouraging than the overall development is the fact that the operators are now experiencing better results for their real business that of reinsurance underwriting. Large-scale income from invested capital frequently cloaks massive non-life underwriting losses on the part of direct-insurance and reinsurance companies, who are fully aware of the inherent danger of this reliance on the vagaries of international interest rates.

The most striking improvement here is that of Mercantile and General, whose consolidated general-business account for 1985 shows a halving of the underwriting deficit, from £93.6m to £47.2m.

Swiss Re has heralded a reduction of its non-life underwriting loss—which reached no less than SFr 530m in 1984—even although this sector remains "considerably burdened" by high losses on American liability commitments from earlier years.

Munich Re does expect a rather higher deficit on reinsurance underwriting than 1984-85's DM 446m, but explains that results are much better in most fields and that the drop is primarily attributable to US liability business and, to a lesser extent, to the Mexico City earthquake.

It is too early to tell what this year will bring, in that new and serious claims could be around the corner. The 1984 Munich hailstorm alone cost Munich Re DM 166m and Swiss Re SFr 34m. However, the companies have now considerably strengthened their basic earnings potential.

The key to this lies in greater selectivity. Reinsurance companies are, like many direct insurers, increasingly critical as to the risks they accept. Although the long-tail nature of much of the reinsurance business means they have to reckon with frequently substantial claims from the distant past, the internationally-active groups have been carrying out comprehensive pruning operations.

This applies particularly to American business. With about half the world's direct-insurance volume in the United States, this single market plays a disproportionately big role in reinsurance coverage. The current sorry situation in specific lines of US business naturally has a corresponding impact on reinsurers' operational earnings.

Deficits have been highest in the American third-party sector. "No other market is so ruined and in such a complete mess," says Mr H. R. Kaufmann, of Swiss Re's non-life reinsurance department. His counterparts in other European countries agree with him. Huge claims continue to arise under the US tort system and with the compliance of "generous" juries—in some cases, such as product liability, affecting such non-American insureds as export industries.

Other branches of US insurance have also been unprofitable. Credit and fidelity cover is an example, and, at least in part, so is life. Swiss Re's 1985 life-reinsurance profits dropped "perceptibly" last year, due to narrower margins and a "fortuitous accumulation of major losses at the North American subsidiary companies."

The US market is by no means the only one that poses problems, though. As Mercantile and General assistant general manager Mr L. J. McKinnes said in a recent speech, "it would be totally incorrect to believe that the problems in reinsurance stem solely or even principally from the US."

National markets, like South Africa and Canada, or sectors such as industrial-fire, transport, accident and motor reinsurance are also the cause of headaches; while some European reinsurers — though not the "Big Three" — are even failing to show underwriting profits on normally profitable life business.

There seem to have been no cases where major reinsurers have truly given up a whole sector of activity or national market, though all reports reflect the much more selective approach. According to Dr Ernst Hosp, senior executive manager of Munich Re, there has been a reduction of non-life premiums in his company by a "three-figure sum in millions of marks," for instance; while a similar excision is reported by the group's liability/accident/sickness division.

For its part, Swiss Re introduced a programme of measures to limit exposure "all over the world" at the start of this year, and foresees a further campaign in 1987. In the specific cases of industrial and professional liability cover in the US, the group is writing "hardly any new business at all," says Mr Kaufmann. Mercantile and General last year "deliberately reduced its writings in the North American and South African markets," faced with what is called unsatisfactory terms of trade there.

Such measures show up in premium figures. Despite a much greater growth rate in its German business, Munich Re booked a lower rise in overall premiums—by 7 per cent to DM 11.86bn—in 1985-86, while Swiss Re expects a slight fall in combined reinsurance and direct-insurance premiums from the 1984 figure of SFr 11.5bn. Both these groups naturally experienced a strengthening of their national currencies, but selectivity was definitely a contributory factor. At Mercantile and General, net group premium income actually dropped 11 per cent over the year, to £53m, also due jointly to exchange-rate developments and the "cancellation of business."

At the same time, the companies have been introducing what Munich Re executive manager Mr Rolf Dotzel terms "more adequate conditions and higher premiums." This has been made easier for the reinsurers by an overall contraction of the market. In recent years, the number of reinsurers active in the world has dropped from 365 to 346, with a simultaneous up-grading of their portfolios. This has been accompanied by a cutback of — or even withdrawal from — reinsurance by numerous direct insurers with their own reinsurance departments or subsidiaries, together with a stabilisation or reduction of captive activities and a large-scale retreat from international business on the part of third-world reinsurers, says Dr Hosp.

Tariffs are generally still too low in sectors like liability, non-life or transport. Nevertheless, reinsurers already appear to be expecting better operating results for the current year and a general lessening of reliance on investment income.

John Wicks

Natural catastrophes

A data-base for dealing with disaster

THE WIND of change that has blown through the reinsurance business has brought with it a determination by reinsurers finally to come to grips with their potential exposure to natural catastrophes.

Last September's earthquake in Mexico City carried an insured loss of US$200m.

The destruction in the wake of a windstorm ripping through the US between New Orleans and Chicago is still incalculable. A severe earthquake in the Tokyo Bay area, with ensuing fire, could cause $250bn damage.

The past decade's excessive over-supply of reinsurance capacity, high inflation, and high interest rates leading to cash-flow underwriting, simply compounded the problem. Nor did the industry have sufficient reliable information to hand which could enable it to calculate its potential exposure, and thus protect itself. The hardened market has not only reduced worldwide reinsurance capacity, but also concentrated the minds of reinsurers to acquire an understanding of the nature of the risks they cover.

The establishment of the Cresta group, an informal co-operation between reinsurers, resulted in the provision of the first real natural-catastrophe data base for the industry.

Using information provided by scientific institutions and observatories, reinsurers may now quickly establish the size and frequency of earthquakes to be expected in any part of the world where they do business.

The Swiss Reinsurance Company has developed Equip (Earthquake Underwriting Information Programme). This package of computer programmes enables the reinsurer to estimate maximum and probable losses for earthquake commitments for a reinsurance treaty, and calculate premiums accordingly.

This has been one of the most welcome developments. Expressing the general feeling within the industry, John Austin, assistant general manager at the Mercantile and General Reinsurance Company says: "Unless reinsurers are able to collate information on a uniform basis, they will be unable to tap their full capacity, and then tap full retrocession capacity."

However, the general feeling among reinsurers is that, for natural catastrophe coverage, their task has only just begun. Some suggest involving the insurance market at the design stage of structures they are expected to insure.

There is no way to test adequately whether or not a building will survive an earthquake shock, whatever its design criteria, say engineers. The test is the earthquake itself. If the building is severely damaged, an analysis of that damage adds to the book of knowledge used to compile future building codes. This long learning-curve means that the building to be insured today was, with the best possible intentions, designed with yesterday's knowledge.

Even then, sometimes experience is no teacher. Column failure, which last year caused commercial buildings in Mexico City to collapse like a pile of pancakes, was not unlike the cause of building collapse after an earthquake nearly 20 years ago in Caracas, Venezuela.

And is it possible to estimate the probability of the intangible human error? Many reinsurers have followed the advice of engineers in suggesting that they could participate in supervising the construction stage.

In their post-mortems following an earthquake, they have reported many of the sins visible in a semi-collapsed building. Coca-Cola bottles or old pairs of socks stuck in the joint between columns and beams; or mortar whose only apparent use is to keep bricks apart rather than together, pulverising at the touch of a fingernail.

This experience has caused reinsurers to question the quality of business ceded by the direct insurer. They now demand commensurate deductibles on the part of the cedeing company. The Munich Reinsurance Company is quite clear about its requirements. It needs a clear definition of what is covered under the policy, and that the reinsurer be informed of the accumulation of liabilities in any individual assessment zone.

It has also questioned whether something is insurable or not. In the present seller's market, if reinsurers are not willing to cope with a risk, then it is uninsurable—a strategy determined not only by price—but by the product itself.

But others have questioned the philosophy of restricting catastrophe coverage. If reinsurers are not prepared to meet a demand, will this not open the door to government intervention?

But reinsurers face a bigger problem still, if not their worst problem: the provision of catastrophe reserves.

As the world becomes more industrialised, the potential for catastrophic losses increases. Reinsurers have also woken up to the fact that, just because an earthquake or hurricane has not occurred in a particular part of the world, that doesn't mean it never will.

Maria Kielmas

SECTION II – COMPANIES AND MARKETS
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INTERNATIONAL BONDS

Floaters sparkle but fixed-rate issues gloomy

IT WAS the best of times and the worst of times in the Eurobond market last week. A clutch of successful deals, most notably the UK's massive $4bn issue, sparkled in the floating rate note (FRN) sector. Meanwhile, resurgent fears of inflation and worries about the credit rating of North American companies sent the fixed rate market into a downward spiral, **writes Clare Pearson in London.**

The UK's FRN, an unqualified success, traded buoyantly all week. As a sting in its tail, though, it was partly responsible for a market downturn towards the end of the week.

The issue will not weigh down the market in the long term. It appeals to a far wider group of investors than traditional bank FRN players, and chunks of it will disappear through floating-to-fixed interest rate swaps. But in the meantime underwriters contemplating their huge commitments are in no mood to welcome any new glamorous sovereign deals.

A similar situation prevails in the sterling FRN sector, as the UK building societies wheel out one issue after another. But last week's deals demonstrated that even now a touch of fine-tuning can work wonders for new issues in this overloaded sector.

Halifax's deal demonstrated that the sterling FRN market can successfully escape from the three-month London interbank offered rate (Libor) benchmark. The one-month interest-paying tranche appeals to money market accounts, while the six-month linked deal, with a fixed first coupon, attracts speculators on future interest rates.

Anglia's issue capitalised on demand for a fixed first coupon too, and since it was set at 10½ per cent it proved irresistible as a three-month trading instrument. The bond is only 50 per cent payable for the first three months, so the investor enjoys a high-yielding three-month trading instrument before its coupon is fixed at 8 basis points over Libor in December.

The equity related sector saw a successful deal too. Nomura Securities, the largest Japanese securities house that has just been granted a licence to take deposits in the UK, issued a $200m bond which traded at a premium of about 15 points above its par issue price.

Nomura set the bond's coupon at 3¾ per cent as an "example-setting exercise," it said. Most of the Japanese houses have established this coupon level as a benchmark for Japanese equity warrants following sharp falls in more tightly priced deals.

Investors are particularly bullish on Japanese securities houses' stock at the moment, given their role in channelling in Japan's huge capital exports.

Although last week saw some highly successful primary market activity, the secondary market traded in a state of nerves extending sometimes to panic.

This arose, partly, from economic news. Soaring commodity prices rekindled inflationary fears and then Friday's stronger-than-expected August US employment data suggested that the US would not be cutting its discount rate again in the near future.

Partly the gloom arose from renewed concerns about North American corporates. Dome Petroleum, the troubled Canadian oil company, announced that it was asking bond holders to waive payments of principal and interest on outstanding bonds. This hit Canadian bank FRNs especially, regardless of the extent of their banks' individual exposure to Dome.

The plight of FRNs for Canadian banks was heightened on Friday with the appearance of the first perpetual bonds for Australian banks. Canadian 99-year issues had been out of favour with the market from the first since they included provisions for the coupons to be cut pro rata with reductions in dividend payments. The new Australian deals did not have this drawback and were more generously priced.

Consequently on Friday many investors rushed to switch from Canadian bank issues into the new Australian deals.

It has been hard to persuade Eurobond investors to buy US corporate paper for some time. Where lead-managers are brave enough to attempt to do so, bonds are often launched with wide spreads so that they can rapidly be swapped into floating rate obligations. This was the method used for deals for Chrysler and North American Philips last week.

The situation is not helped when news comes that a major company is being put on "Credit watch" with a view to downgrading by Standard & Poor's, as happened to General Motors, and its financing subsidiary GMAC, last week. Since to many investors General Motors is the epitome of corporate America, both GMAC issues, and those for other corporates, were marked down sharply.

The D-Mark bond market caught the Eurodollar's sector gloom towards the end of the week, and prices finished as much as ¾ point down. Swiss franc bonds, however, traded quietly but with a firm tone.

● Salomon Brothers International announced on Friday an innovative issue of 100,000 warrants into a 10-year US Treasury 7⅜ per cent bond. The warrants' value at expiry is linked by a formula not only to the value of the bond but also to the D-Mark/US dollar spot exchange rate.

The instrument is a means of hedging multiple currency transactions. Salomon said it should appeal to investors who are bullish on the D-Mark and US Government bond markets. Warrants are priced at $20 each, exercisable into $1,000 face value of the Treasury bond.

EUROMARKET TURNOVER
Turnover ($m)

	Straights	Conv	FRN	Other
Primary Market				
US$	2,806.6	8.2	141.0	2,712.8
Prev	1,313.1	122.6	8,298.6	2,672.6
Other	302.9	—	—	73.8
Prev	884.9	—	294.5	6.6
Secondary Market				
US$	22,880.1	1,340.0	13,098.6	7,098.8
Prev	23,857.1	1,378.6	13,289.6	7,998.8
Other	10,076.2	121.6	1,670.3	3,682.6
Prev	10,882.0	101.4	2,064.0	3,626.2

	Cedel	Euroclear	Total
US$	13,701.3	36,771.2	50,472.1
Prev	12,957.5	42,361.3	55,318.8
Other	8,065.9	8,128.5	16,194.4
Prev	8,384.7	9,188.9	17,573.6

Week to September 4 1986 Source: AIBD

Higher costs check Heineken earnings

BY LAURA RAUN IN AMSTERDAM

HEINEKEN, the Dutch beer brewer, posted flat earnings and only slightly higher revenues in the first half due to steep restructuring costs and relatively sluggish sales.

Net income was little changed at Fl 118.8m ($51.7m) in the first six months compared with Fl 117.9m in the year-earlier period as higher costs offset the growth in turnover, according to Heineken, the third largest brewery in the world. Operating expenditures rose 5 per cent to Fl 3.168m from Fl 3.021m because of heavier costs for personnel, raw materials and depreciation.

French and Spanish operations, in particular, are soaking up money for curbing production and improving standards. Sogebra, the French brewery holding company in which Heineken has a 51 per cent stake, is to get Fl 250m in coming years for shutting plants. In Spain operating costs and interest charges also climbed on the consolidation of El Aguila, the Spanish brewery in which Heineken lifted its stake to 51 per cent from 38 per cent in August.

Turnover edged up 5 per cent to Fl 3.4bn from Fl 3.25bn in part on the consolidation of El Aguila and in part on better sales because of warm weather in Europe. Dividends from non-consolidated companies fell by nearly half to Fl 6.4m from Fl 11.7m because of the unusually large amount in the first half of 1985 when overdue dividends rolled in.

Shareholders differ with Montedison chief

BY ALAN FRIEDMAN IN MILAN

MR MARIO Schimberni, chairman of Italy's Montedison group, has been sharply criticised by two of his company's leading shareholders for not having informed them of Montedison's purchase last month of an important share packet in a Florence-based insurer.

The unusual attack comes from Mr Enrico Cuccia, the crusty 78-year-old veteran at Mediobanca, the Milan merchant bank which owns 2.7 per cent of Montedison. A letter sent to Mr Schimberni by Mr Cuccia, which complains of not having been informed of last month's purchase of L740bn ($526m) of a 12.4 per cent stake in La Fondiaria, was leaked to Italian newspapers at the weekend. The letter was co-signed by Mr Giampiero Pesenti, who owns 1.5 per cent of Montedison shares.

By acquiring the Fondiaria shares last month, Mr Schimberni increased Montedison's control of the wealthy insurance group to 37.5 per cent (effective control). Mr Cuccia's attack is based on the supposition that as a member of the syndicate of leading Montedison shareholders, he should have been told of the deal before it was transacted.

What is really at issue, however, is concern in the old Italian financial establishment (of which Mr Cuccia is a kind of father figure) that Mr Schimberni is not observing the traditional rules of the game. The feisty old Mediobanca chief may also be alarmed that in taking control of La Fondiaria Montedison has also obtained a small, but key shareholding in Mediobanca itself, held through the Florence insurer.

EURONOTES AND CREDITS

Bidding for British Airways $2.3bn loan intensifies

WITH A week to go before the $2.3bn credit proposal assembled by Goldman Sachs is due to lapse, the bidding war is intensifying to provide British Airways with finance to cover its purchase of 16 Boeing 747-400 Jumbo jets, **writes Peter Montagnon in London.**

Mr Gordon Dunlop, BA's chief financial officer, said at the weekend that the total number of different banks vying to arrange the deal had now increased to at least four.

Although he would not name the banks, some at least come from the group of 10 institutions assembled by Goldman Sachs in July to provide loan finance. Goldman arranged the deal on behalf of Rolls-Royce as part of that company's successful bid to provide engines for the aircraft.

In an unprecedented development, which underlines the level of competition in the secretive world of airline financing, Goldman Sachs group is just one competitor among many, even though it was an integral part of the Rolls-Royce bid for the engine contract.

Bankers in the Goldman group had hoped that the approaching deadline would force British Airways to declare its intentions this week, eliminating the intense confusion which now surrounds the financing, but Mr Dunlop said the situation could still stay fluid for some time.

Among the technical aspects British Airways was looking at was taxation and any final scheme needed to be flexible to take account of the possibility that tax breaks on leasing might open later on, he said.

He hoped to hold all the offers in place until a final decision on the scheme was reached, raising expectations that the Goldman group might be asked to extend the validity of its offer beyond the present expiry date on September 15.

Goldman would not comment on the situation on Friday beyond stating that its offer was intact and still on the table, but Mr Dunlop was evidently enjoying the suspense.

"I think the atmosphere has changed. Banks like aircraft financing better than lending to the Third World, oil producers and farmers," he said. While the banks are waiting for his answer, they are also pondering another question – what to do about the commitment fees already paid to those banks in the Goldman group which are now trying to strike out on their own?

The UK is keeping the credit market busy in other ways too, with a fresh flurry of new loan facilities for British companies. These include a £250m, five-year syndicated acceptance credit and loan facility being arranged by Kleinwort Benson for House of Fraser which is accompanied by a separate £150m revolving underwriting facility allowing notes to be issued at a maximum margin of 20 basis points.

The £250m portion bears a commitment fee of ⅛ per cent, payable only if less than half is drawn on average. Drawings will bear interest at a margin of 25 basis points in the first year, rising in stages to 40 basis points in years four and five.

Lloyds Merchant Bank is arranging a £60m bonding facility for International Leisure Group, which operates Intasun package holidays. This is a 5½ year deal carrying a commitment fee of ⅛ per cent under which banks will put up the surety bonds Intasun needs to protect customers against default under Tour Operator Study Group rules. The bonding fee is ¼ per cent.

Lloyds is also arranging a £50m, five-year revolving credit carrying a commitment fee of ⅛ per cent for United Newspapers. The interest margin is 20 basis points although there is an additional utilisation fee of up to 10 basis points, depending how much is drawn.

New Zealand's Development Finance Corporation formally announced the appointment of County Bank, Salomon Brothers and Swiss Bank Corporation to act as dealers on its previously announced $300m Eurocommercial paper programme.

Now it is working on a separate programme in New Zealand dollars through Morgan Stanley, the first such programme in New Zealand currency.

INTERNATIONAL CAPITAL MARKETS AND COMPANIES

Elf-Aquitaine plans $1.5bn Euro-funding

BY PAUL BETTS IN PARIS

ELF-AQUITAINE, the French state-controlled oil group, is planning to raise up to FFr 10bn ($1.5bn) through the international markets to finance eventual new oil and chemical acquisitions.

The planned financing, to be made by a convertible bond, is also closely linked with the privatisation of Elf which is currently 67 per cent-controlled by the State Erap holding company.

Erap has already disclosed plans to reduce its stake to 51 per cent by selling a 16 per cent block of Elf shares on the French bourse. Its stake could eventually decline further to around 35 per cent if, as expected, Erap does not subscribe to the forthcoming convertible bond issue.

Mr Michael Pecqueur, chairman of Elf, has suggested that in the longer term the company's state shareholder could retain a 35 per cent stake. This would be similar to the 35 per cent stake the government owns in Total, France's other large oil group.

However, the timing of both the bond issue and the sale by Erap of a 16 per cent block of Elf shares remains uncertain and will ultimately depend on financial market conditions and the performance of Elf shares.

The French government had originally hoped to sell the 16 per cent stake owned by Erap this summer to raise up to FFr 5bn to help finance the 1986 state budget deficit. But the disappointing bourse performance of Elf's shares, hit by the decline in crude oil prices, persuaded the government to postpone the sale.

Elf also decided to postpone indefinitely a proposed issue of non-voting shares or "certificats d'investissement" because of fears that the issue risked receiving a poor reception from the French market.

The International bond issue is seen as a replacement for the postponed share offer.

The French oil company believes that an international bond issue is likely to be more successful than a domestic issue because it will not have to compete directly on the French market with the sale of the large block of Elf shares by Erap. "There would have been the risk of crowding out the market with Elf shares."

Moreover, Elf hopes to see its share price pick up after reporting higher than expected first-half profits of FFr 3.4bn this year compared with profits of FFr 2.9bn in the same period last year. Elf shares closed at FFr 357.50 immediately after the publication of the earnings figures, still some way below the year's high of FFr 378.

From the beginning, Elf has argued that privatisation should benefit not only the government shareholder but also the company by enabling it to reinforce its capital funds. Hence the decision to combine the Erap sale of Elf shares, which will benefit the Government directly, and the convertible bond issue, which will bring in fresh funds.

Elf has also indicated that it is considering listing the parent company on Wall Street. Its American Elf Inc subsidiary is already listed in New York.

Dumez in $157m bid

By Paul Betts in Paris and Robert Gibbens in Montreal

DUMEZ, the large French private construction group, is to expand its Canadian activities by acquiring for C$217m (US$157m) United Westburne, the Canadian equipment manufacturer.

The acquisition was announced at the weekend by Dumez and Westburne International which owns 94 per cent of United Westburne. Dumez is proposing to pay C$23 a share to acquire the Canadian concern.

Dumez is one of the largest French construction companies with sales of more than FFr 9bn (US$1.34bn)

Rand Merchant Bank lifts dividend as profit grows

BY JIM JONES IN JOHANNESBURG

RAND MERCHANT BANK, the privately-owned South African banking company, has announced strong profits for the year ended June 1986.

Disclosed income after tax and transfers to and from inner reserves increased to R10m ($4.3m) for the year from R3m in the preceding six months reporting period. Total assets more than doubled to R274.9m from R130.7m and advances to customers increased to R166.3m from R68.9m.

The directors say the bank has concentrated on hedging, risk management, arbitrage and market-making and has avoided taking positions on its own account. As a result, the board says, the trading divisions performed well.

The corporate finance division is said to have made a significant contribution to income and raised R200m for customers through rights issues, new listings and capital restructuring.

The bank which is doubling its dividend to R20 a share says it plans to obtain a Johannesburg Stock Exchange quotation.

Sharp half-year decline by Saudi-Dutch Bank

BY FINN BARRE IN RIYADH

Albank Alsaudi Alhollandi (Saudi-Dutch Bank) has issued an unaudited report saying that profits for the first six months of 1986 were 56 per cent lower than the first six months of 1985.

Alhollandi said profits for the first half of 1986 were SR11m ($2.93m). Profits for the same period in 1985 were SR19m, while profits for all of 1985 were SR25m.

Alhollandi, which is a joint venture 40 per cent owned by Algemene Bank Nederland, stated that provisions for the first half of 1986 were SR25m, down from SR29m for the same period in 1985.

● Arab Bank, Jordan's largest commercial bank, said its first-half 1986 profit before deductions rose to 17.1m dinars from 15.1m in a year earlier.

The bank's assets in Jordan fell to 2.95bn dinars at end-June 1986, a 3.3 cent decline on mid-1985. But group assets rose by 9 per cent to 11.89bn dinars.

The bank's half-year balance sheet for Jordan operations showed cash in hand and at banks totalled 1.75bn dinars

NEW INTERNATIONAL BOND ISSUES

Borrowers	Amount m.	Maturity	Av. life years	Coupon %	Price	Book Runner	Offer yield %
U.S. DOLLARS							
Nippondenso ¶‡	100	1991	5	2⅞	100	Nomura Int.	2.875
Kansai Paint ¶‡	40	1991	5	3⅛	100	Nomura Int.	3.125
Nippon Zeon ¶‡	60	1991	5	3⅛	100	Yamaichi Int. (Eur)	3.125
Joshin Denki ¶‡	80	1991	5	3⅛	100	Nomura Int.	3.125
H. J. Heinz ϕ‡	75	1996	10	7½	100	UBS (Secs.)	7.500
Metlife Funding ‡	150	1996	10	7¾	101	CSFB	7.604
Nippon Meat Packers ¶	80	1991	5	(2⅞)	100	Yamaichi Int. (Eur)	•
Tsuzuki Mkt Co ¶	20	1991	5	(2⅞)	100	Daiwa Europe	•
Denmark (c)‡	120	1996	10	7¼	101⅛	Goldman Sachs	7.818
Banco Santo Spirito †‡	200	1993	7	(d)	100	Merrill Lynch	–
PKbanken ‡	82	1993	7	10	115¼	Yamaichi Int (Eur)	7.155
Mitsui Tst & Banking §	100	2001	15	(2⅞)	100	Mitsui Trust Int	•
Shimadzu Corp ¶	100	1991	5	(2⅞)	100	Nikko Secs. (Europe)	•
N. American Philips ‡	100	1993	7	8	100⅞	Morgan Stanley	7.833
Chrysler Fin. Corp. ‡	125	1991	5	8	101½	Pru-Bache Secs	7.628
Fukuyama Transporting ¶	100	1991	5	(3⅛)	100	Nomura Int.	•
Bank of Yokohama §	100	2001	15	(2⅞)	100	Nomura Int.	•
Barings BV (a)†‡	50	2001	15	3/16	100	Baring Brothers	–
Mofina ¶‡	100	1996	10	4	100	CSFB	4.000
Paine Webber Group (b)†‡	125	1993	7	⅛	100	Morgan Guaranty	–
Rothschild Cor'ation †‡	200	Perp.	–	(m)	100	Banque Paribas	–
United Kingdom (n)†‡	4bn	1996	10	⅛	100	CSFB	–
Flags BV ‡	250	1991	5	7	100⅞	Morgan Guaranty	6.818
WestLB Finance ‡	150	1993	7	9¾	114¼	LTCB Int	7.256
Santa Barbara S&L †‡	200	1996	10	1/16	100	CSFB	–
Nomura Secs ¶	135	1991	5	(3⅛)	100	Nomura Int	•
Nomura Secs ¶	365	1991	5	(3⅛)	100	Nomura Singapore	•
Sanoike Mkt ¶	60	1991	5	(3⅛)	100	Nomura Int	•
Koyo Seiko Co ¶	70	1991	5	(3⅛)	100	Nikko Secs (Europe)	•
Italian Int Bank (q)†‡	15	1996	10	3/16	100.1	Svenska Handelsbk	–
Manufacturers Nat. (r)†‡	60	1996	10	¼	100	Chase Manhattan	–
Mitsubishi Corp. Fin. ‡	70	1991	5	11	112⅜	Nikko Secs (Europe)	7.988
Westpac (s)†‡	500	Perp.	–	15bp	100	Morgan Guaranty	–
State Bk of Victoria (t)†‡	125	Perp.	–	1/16	100	Merrill Lynch	–
CANADIAN DOLLARS							
World Bank (g)‡	100	1996	10	9	100.85	Nomura Secs	9.067
Canada Trustco ‡	100	1992	5¼	9¾	101	McLeod Young Weir	9.479
Desjardins du Quebec ‡	75	1991	5	10	101¾	Wood Gundy	9.544
AUSTRALIAN DOLLARS							
Landesbank Stuttgart ‡	30	1991	5	14	101	Hambros Bank	13.711
Eastman Kodak ‡	50	1988	3	14⅛	100	Salomon Brothers	14.125
D-MARKS							
Mofina ¶‡	250	1993	7	2	100	CSFB-Effectenbank	2.000
Australia **‡	200	1991	5	5¼	100	Deutsche Bank	5.250
EIB ‡	200	2016	30	6	100	WestLB	6.000
World Bank **‡	250	1993	7	5¾	100	DG Bank	5.750
Cathay Pacific ‡	250	2001	10½	6½	100	Chase Bank	6.500
Commerzbank ‡	300	1993	7	5¾	100	Commerzbank	5.750
SWISS FRANCS							
Pegasus Gold Corp. (e)§	60	1996	–	5¾	100	Bqe Gutzwiller, K. B.	5.750
Seagram Co.	200	2005	–	(8)	(100)	SBC	•
Seibu Credit Co. **§‡	100	1992	–	⅞	100	Credit Suisse	8.875
Kanda Tsushin Kogyo **§‡	25	1991	–	⅜	100	Swiss Volksbank	8.877
XR Capital Holding (h)§	100	2001	–	(5¾)	100	Bqe Gutzwiller, K.B.	•
Chubu Elec. Power ‡	150	2001	–	5⅛	100	UBS	5.125
Daido Kogyo Co **‡	40	1991	–	⅞	100	UBS	4.971
Nippon Valqua Ind**¶	30	1991	–	(1)	(100)	Banca del Gottardo	•
Tokyo Elec Power ‡	200	1994	–	4¾	100	Credit Suisse	4.750
Mizuno Corp **¶	30	1991	–	(1)	100	SBC	•
BPCA Finance (i)‡	100	1991	–	(j)	(j)	UBS	–
ASCCI Corp. **‡	25	1991	–	5	100¼	Handelsbank	4.971
Ibiden Co **¶	45	1991	–	(1)	•	SBC	•
Gastec Service **§	30	1991	–	(1)	•	SBC	•
STERLING							
Halifax B Soc (a)†‡	150	1996	10	8bp	100.05	CSFB	–
Halifax B Soc (f)†‡	150	1996	10	8bp	100.05	CSFB	–
Anglia B Soc (c)†‡	150	1996	10	8bp	100	Warburg Securities	–
FRENCH FRANCS							
AIDC ‡	800	1993	7	7⅞	100	BNP	7.875
Denmark (k)‡	500	1991	5	4½	100	Société Générale	–
ECUs							
FIH (Denmark) ‡	50	1991	5	8	102⅞	Kredietbank Int	7.293
GUILDERS							
ICN P'ceuticals §‡	75	1994	8	6	100	Van Haften and Co.	6.000
World Bank **‡	100	1991	5	5¾	100	Rabobank	5.750
EIB	300	2001	15½	6	•	Amro, ABN	•
BELGIAN FRANCS							
World Bank **‡	2bn	1994	8	7½	99⅞	Cera	7.650
AUSTRIAN SCHILLINGS							
World Bank **‡	400	1994	8	7	99⅞	GZB-Wiener	7.094
YEN							
SBC Finance ¶‡	25bn	1993	7	2	100	SBCI	2.000
World Bank **‡	5bn	1993	7	5.65	100	Nederlandsche Bank	5.650
Mitsui & Co ‡	25bn	1991	5	8½	113¾	Nomura Int.	5.378
Denmark ‡	20bn	1992	6	8½	117¼	Tokai Int	5.082
KOP ‡	15bn	1993	7	8½	118	Nomura Int	5.366
BNP ‡	30bn	1991	5	8½	114¼	Nomura Int	5.181
Security Pacific ‡	20bn	1991	5	8½	114¼	Nomura Int	5.191
Security Pacific ‡	20bn	1993	7	8½	118	Nomura Int	5.366

* Not yet priced. ‡ Final terms. ** Private placement. § Convertible. † Floating rate notes. ¶ With equity warrants. ϕ With bond warrants. [illegible]

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CU
ASSURANCE

Commercial Union Finance B.V.

SFr. 200,000,000

4.5% Guaranteed Bonds 1986 – 2000

unconditionally and irrevocably guaranteed by, and with Warrants to procure the issue of ordinary shares in,

Commercial Union Assurance Company plc

HandelsBank N.W. **Goldman Sachs Finanz AG**

Bank von Ernst & Cie AG
Banca del Gottardo
Banque Privée SA
La Roche & Co.
Schweizerische Hypotheken – und Handelsbank
Banca della Svizzera Italiana
Wirtschafts – und Privatbank
Algemene Bank Nederland (Schweiz)
Banque Indosuez
Banque Kleinwort Benson SA
Banque Paribas (Suisse) SA
Baring Brothers SA
Canadian Imperial Bank of Commerce (Suisse) SA
Chase Manhattan Bank (Switzerland)
Chemical Bank (Suisse)
Aargauische Hypotheken – und Handelsbank
Banque Vaudoise de Crédit
Bank in Gossau
Bank in Menziken
Bank vom Linthgebiet
Regiobank beider Basel
EKO Hypothekar – und HandelsBank
Luzerner Landbank AG
Banque Romande
B.E.G. Bank Europäischer Genossenschaftsbanken
Banque CIC Union Européenne en Suisse SA
Bank in Liechtenstein Aktiengesellschaft
Clariden Bank
Crédit des Bergues SA
Fuji Bank (Schweiz) AG
Morgan Guaranty (Switzerland) Ltd
Nomura (Switzerland) Ltd
Sanwa Finanz (Schweiz) AG

May, 1986

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DnC

Den norske Creditbank

Can$75,000,000

9¾% Notes due July 10, 1989

Goldman Sachs International Corp.

Algemene Bank Nederland N.V.

Banque Indosuez

Crédit Lyonnais

Banca Nazionale del Lavoro
Bank Brussel Lambert N.V.
Bankers Trust International Limited
Banque Internationale à Luxembourg S.A.
Bayerische Hypotheken- und Wechsel-Bank Aktiengesellschaft
Chemical Bank International Group
Crédit du Nord
Dresdner Bank Aktiengesellschaft
Genossenschaftliche Zentralbank AG Vienna
Mitsubishi Finance International Limited
Mitsui Finance International Limited
Nederlandse Credietbank N.V.
Nippon Credit International Limited
Takugin International Bank (Europe) S.A.
S.G. Warburg Securities
Zentralsparkasse und Kommerzialbank, Wien
Banco di Santo Spirito
Banco di Sicilia
Bank Gutzwiller, Kurz, Bungener (Overseas) Limited
Compagnie de Banque et d'Investissements, CBI

July, 1986

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USX

USX Corporation

(formerly United States Steel Corporation)

ECU 49,450,000

8% Notes due August 8, 1995

Goldman Sachs International Corp.

Algemene Bank Nederland N.V.
Banca Commerciale Italiana
Banque Indosuez
Prudential-Bache Securities International

Société Générale

Banca del Gottardo
Commerzbank Aktiengesellschaft
Crédit du Nord
Daiwa Europe Limited
Den norske Creditbank (Luxembourg) S.A.
Genossenschaftliche Zentralbank AG Vienna
Nippon European Bank S.A.
Vereins- und Westbank Aktiengesellschaft

S.G. Warburg Securities

August, 1986

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YUKONG LIMITED

U.S. $20,000,000

3% Convertible Bonds due 2001

Goldman Sachs International Corp.

Daiwa Europe Limited

Ssangyong Investment & Securities Co., Ltd.

Crédit Lyonnais
Deutsche Bank Capital Markets Limited
Dongsuh Securities Co., Ltd.
Jardine Fleming (Securities) Limited
The Nikko Securities Co., (Europe) Ltd.
Salomon Brothers International Limited

Swiss Bank Corporation International Limited

Daishin Securities Co., Ltd.
Daewoo Securities Co., Ltd.
The Lucky Securities Co., Ltd.
Coryo Securities Corp.

Special Adviser to Yukong Limited
Daishin Securities Co., Ltd.

July, 1986

INTERNATIONAL CAPITAL MARKETS

US MONEY AND CREDIT

Inflation fears help push bond prices lower

THE CREDIT markets chose to celebrate the end of the summer by going into a tailspin last week. No sooner had traders returned to work after the Labor Day weekend than bond prices began to tumble on fears about inflation and a pickup in US economic activity.

On Wall Street, share prices moved into new high ground with the Dow Jones Industrial Average closing at a record high of 1919.71 on Thursday and on the foreign exchange markets the dollar strengthen against other major currencies. But in the credit markets prices fell every day last week and short-term interest rates firmed.

After its strong August rally, traders had been expecting that the market might be due for a correction as it entered September, but most were unprepared for last week's severe battering, which knocked 4 full points off long-term government bond prices. It was the largest one-week setback since late April, when long bond prices fell by around six points.

Aubrey G. Lanston blames last week's setback on a "sudden flare-up in inflationary psychology." The price of gold jumped by $36, or 9.3 per cent last week, a surge in the prices of other precious metals and industrial commodity futures, plus surprisingly strong oil prices, all served to spook the credit markets.

The other factor behind last week's shakeout was Friday's news of unexpectedly strong August employment figures. The US unemployment rate dipped for the third month running, by 0.1 percentage point, to 6.7 per cent, and there was a healthy increase in civilian employment for the fourth month in a row.

Dr Allen Sinai of Shearson Lehman Brothers says the employment figures suggest that the long-awaited upturn in US economic growth could be beginning. If this is correct the implication for the various financial markets "will call for considerable rethinking," he says.

Aubrey Lanston believes last week's signals seem to be telling the Federal Reserve that it has eased about as far as it can for the time being. Any further near-term discount rate cuts by Japan or West Germany should be viewed as follow-up actions to the Fed's earlier discount rate cuts.

There is plenty of news due this week which will give a clue to whether the US economic pulse is beginning to quicken. The August retail sales figures, due on Friday, may be up by between 1½ and 2 per cent says Salomon Brothers, and the monthly money supply figures, due on Thursday, will also be monitored closely.

"The monetary authorities cannot overlook the fact that both M-2 and M-3 in August are estimated to have exceeded their 7 to 9 per cent intermediate target ranges for the June-September period," says Aubrey G. Lanston, noting that, as long as economic growth was expected to remain weak and there were no signs of inflationary pressures, Fed policymakers could all but ignore monetary growth.

Salomon Brothers, however, believes that the Federal Reserve will continue to pursue its current expansionary policy, arguing that "the underlying pace of economic expansion remains moderate, and actual inflation is not a threat."

Participants in the credit markets would also be wise to keep an eye on developments in overseas monetary policy this week. The New York arm of Barclays Bank notes in its latest weekly market letter that the release of German money supply figures and a Bundesbank meeting on Thursday plus the possibility of a Japanese reinflation package announcement mid-week, should prevent excessive pressure on the dollar.

Salomon Brothers says the second-quarter gros national product — growth figures for West Germany — an 8 per cent rate — eliminates any domestic pressure on the Bundesbank to initiate additional stimulative policies. However, the firm believes that US pressure on Japan to implement reflationary policy action seems to be mounting.

The big sell-off in the credit markets centred on government paper and the corporate market fared less badly with prices falling by between one and two points. New issue activity was very slow, reflecting the holiday shortened week and concern about the direction of interest rates.

Among issues coming to the market last week was a $900m offering of 7 per cent debentures due 1991 for the Federal National Mortgage Association. They were priced at par and yielded about 32 basis points more than comparable Treasury issues. Borg Warner Acceptance Corporation also came to the market for five-year money, raising $100m. The notes, which mature on September 15, 1991, carry a 7.5 per cent coupon and were priced at 99.979 to yield 7.505 per cent.

Standard Oil, the US affiliate of British Petroleum, announced plans to raise another $100m of securities linked to the price of oil. Among other developments, Standard and Poor's, the US credit rating agency, was considering lowering its credit rating on $23bn of debt issued by General Motors and its GMAC finance subsidiary.

William Hall

US MONEY MARKET RATES (%)

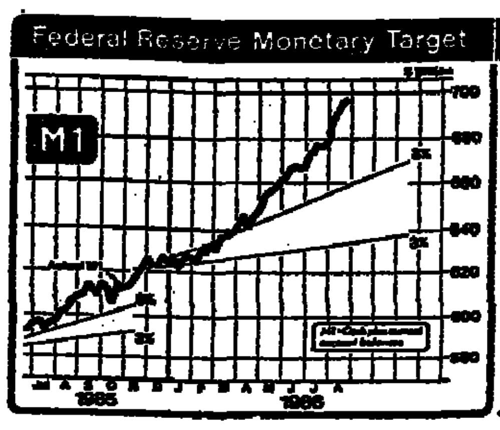
	Last Friday	1 week ago	4 wks ago	12-month High	12-month Low
Fed Funds (weekly average)	5.88	5.85	6.34	9.91	5.85
Three-month Treasury bills	5.23	5.15	5.69	7.40	5.15
Six-month Treasury bills	5.30	5.15	5.75	7.48	5.16
Three-month prime CDs	5.64	5.46	6.19	8.10	5.46
30-day Commercial Paper	5.60	5.55	6.20	8.05	5.56
90-day Commercial Paper	5.50	5.45	6.13	8.00	5.45

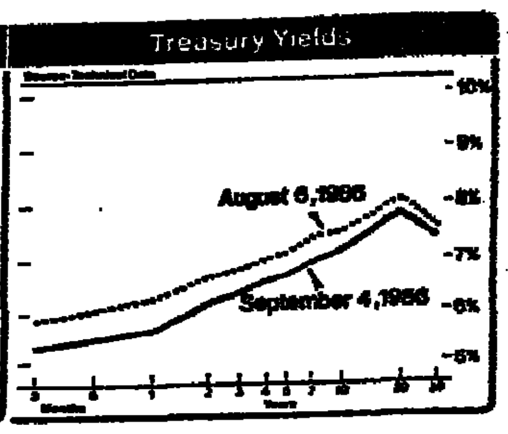
US BOND PRICES AND YIELDS (%)

	Last Friday	Change on week	Yield	1 week ago	4 wks ago
Seven-year Treasury	100⅔	−2⅝	7.15	6.73	7.17
20-year Treasury	114⅝	−4⅜	7.94	7.51	7.79
30-year Treasury	96⅝	−4	7.54	7.20	7.42
New 10-year "A" Financial	N/A	−2⅜	8.40	8.00	8.63
New "AA" Long utility	N/A	−3⅞	9.30	9.00	9.38
New "AA" Long industrial	N/A	−4⅞	9.05	8.63	9.13

Source: Salomon Bros (estimates).

Money Supply: In the week ended August 25 M1 rose by $900m to $688.6bn.





UK GILTS

Wall Street blues hit sentiment in London

THE GILT market had its share of domestic excitement to look at last week, but chose instead to follow New York, where bond prices were crashing and concern over a renewed bout of inflation brought the gold bugs out of the closet.

Losses of 1½ points on Wednesday and ⅞ points on Friday helped to push the gilt curve upwards. The FT Actuaries high coupon series ended the week with a yield at five years of 9.73 per cent, up 24 basis points. At 15 years the yield rose by 23 points to 9.82 per cent and at 25 years by 21 basis points to 9.66 per cent.

Longer dated index linked stocks benefited, with yields falling slightly to 3.46 per cent on a 5 per cent inflation.

Gilts showed relatively little reaction to the UK Government's decision to raise $4bn in the Euromarkets with a 10-year floating rate note. Whichever way you look at it, it was hard to make a bearish case out of the FRN, and in last week's circumstances the market was in little mood for bull scenarios.

Measuring the UK's official reserves against historical levels, or against those held by other countries, provides a good deal of support for the argument that they needed to be topped up by even more than the $2.5bn raised last September.

Even Spain has larger reserves of foreign exchange, according to the International Monetary Fund statistics. Even if you are not planning a major support operation for your currency, you need a good deal in reserve simply for smoothing the market in these days when London alone turns over $90bn a day in foreign exchange.

Perhaps the $4bn FRN is best viewed as another facet of the same policy seen in operation at the beginning of August, when the Bank of England intervened modestly but rather openly in the foreign exchange market. That intervention came on the day the Treasury published official reserve figures for July, showing there had been little intervention during the month.

To intervene then appeared to indicate not that the authorities were worried by sterling's level nor even that the day's movement had been excessively sharp, but that the Treasury was worried lest the lack of movement in the official reserves should be interpreted as a sign that it did not care about the exchange rate.

Mr Jeremy Hale and Mr Gavyn Davies of brokers Goldman Sachs put it like this: "Reserves are like nuclear weapons—useful for their deterrent effect but dangerous when actually used. Their real role is to make possible short-term raids in the currency market (which can be unwound before the official statistics have to be published) and to sow the seeds of doubt in the minds of currency operators, who never know when they might be used for such raids."

The only bearish interpretation of the FRN's effect on the gilts market would be, as Mr Roger Bootle of Lloyds Merchant Bank pointed out, that the authorities had taken the opportunity to raise the funds because there was "something nasty coming up in the lift which the authorities know about and the markets do not."

It is hard to make the case that this week's money supply statistic could be that "something nasty." This would be a rather short-term motive for such a large funding operation. However, concern over the underlying rate of monetary growth, and especially of the expansion of credit, remains strong.

July's over-funding of the public sector borrowing requirement brought that element of the counterparts to sterling M3 growth back almost into line with the Government's professed aim of exact funding for the financial year. And if external flows have been heavily expansionary this financial year, net non-deposit liabilities have been substantially the other way, thanks largely to National Westminster Bank's big rights issue.

This leaves the spotlight firmly on bank lending as the motor of sterling M3's growth. Another figure like the £3bn increase recorded in the July banking month will not encourage the gilts market.

George Graham

FT/AIBD INTERNATIONAL BOND SERVICE

US DOLLAR STRAIGHTS	Issued	Price	Chg. on week	Yield
AHFC O/S Fin 11¼ 94	100	104¼	+0¼	10.88
AIDC 11 89	75	107⅞	−0⅞	7.27
Alcan Australia 8½ 89	25	99¾	+0⅛	8.57
Amer Saving 12 89	125	106⅞	0	9.15
Amer Saving 12¼ 89	100	106⅝	−0⅛	9.20
Asian Dev Bk 11¼ 93	100	118⅞	+0¼	8.56
Australia 8¾ 91	60	102	−0⅛	8.12
Australia 11¼ 90	100	114⅝	−0⅞	7.03
Australia 11⅝ 95	100	120⅝	−0⅞	8.79
Austria 15½ 88	75	112	−0⅛	6.88
Avon Fin 10¾ 92	100	106⅞	0	8.93
Bk Nova Scotia 13⅝ 87	100	105⅞	−0⅛	6.77
Bank of Tokyo 12¾ 92	100	116⅞	−0⅛	8.41
Bank of Tokyo 13⅝ 91	100	121	−0⅛	7.49
Bank of Tokyo 13⅞ 89	100	117⅞	−0⅞	7.22
BMW O/S Ents 10⅝ 91	50	110¼	+0⅞	7.92
BP Capital 11¼ 92	150	111¼	+0⅞	8.37
Br Col Hydro 12½ 14	200	130¼	0	9.63
Pacific Gas & Elec 12 00	75	113	−3¼	10.10
Penney J C 11⅞ 90	100	105	+0⅞	10.30
Penney J C 12⅜ 91	100	112⅞	−0¼	9.49
Postipankki 11⅞ 90	75	109¼	−0⅛	7.98
Post-Och Krad 13½ 87	50	106⅞	0	6.12
Privatbanken 12½ 95	100	121	−0⅞	8.34
Prudential Ins 12⅝ 87	150	106⅝	−0⅛	6.36
Pru Rlty Secs 0 99	365	35⅞	+0⅞	8.71
Pru Rlty Secs 11⅞ 92	386	109⅞	−0¼	9.53
Pru Rlty Secs 12⅞ 95	545	117⅞	−1	8.99
Quebec Prov 12⅝ 94	150	118⅞	0	9.29
Queensland Gvt 11¼ 89	100	111¼	−0½	7.37

FLOATING RATE NOTES	Issued	Price	Chg. on week	C.cpn
Union Bank-Norw ⅛ 99	50	99	0	6⅝
United Kingdom 92	2.5bn	100¼	0	6⅝
Wells Fargo ⅛ 94	150	99⅞	0	7⅛
Wells Fargo ⅛ 96	50	99⅞	−0⅛	5⅞
Yokohama ⅛ 94	100	100¼	0	7⅞
Yorkshire Int ⅛ 94 £	75	100	0	10

CONVERTIBLE BONDS	Issued	Price	Chg. on week	Prem.
Ajinomoto 3 99	120	271¼	−0¼	1.57
Ajinomoto 5¼ 96	40	364½	+2½	−2.51
Best Denki 5⅞ 97	15	301¼	+2	−2.22
Canon 7 97	50	261¾	+5½	1.82

WARRANTS	Expiry date	Price	Chg. on week	Ex. yield
Aegon Ins 11½ 91	15/2/88	101½	−8½	8.51
Coca-Cola 11⅞ 91	29/11/88	130⅝	−2⅞	8.19
Dai-Ichi K 6½ 96 B	1/1/96	14½	0	6.28
Du Pont 13¾ 89	25/8/86	126	0	8.29
Eksportfinas 13¼ 89	15/9/87	142½	−0¼	7.79
Holland Air 11¼ 91	10/8/88	52¼	+0¼	9.84
Ind Bk Jpn 12⅞ 91	5/10/89	165	−1	8.71
Mitsbsh Fin 12⅞ 91	8/11/89	167	−3	8.49
J P Morgan 11¼ 90	16/8/87	90⅝	−1½	7.98
Texaco Cap 12⅞ 92	1/9/87	50	0	11.67
Wells Far A 12⅞ 91	27/12/89	157½	−7½	8.76
Wvrshr Cap 11¼ 90	15/11/87	96	+0¼	8.21

STRAIGHT BONDS: Yield to redemption of the mid-price. Amount issued is expressed in millions of currency units except for yen bonds, where it is in billions.

FLOATING RATE NOTES: US dollars unless indicated. Margin above six-month offered rate (‡ three-month; § above mean rate) for US dollars. C.cpn=current coupon.

CONVERTIBLE BONDS: US dollars unless indicated. Prem=percentage premium of the current effective price of buying shares via the bond over the most recent share price.

WARRANTS: Equity warrant prem=exercise premium over current share price. Bond warrant ex yld=exercise yield at current warrant price.

Closing prices on September 5.

UK COMPANY NEWS

Robinson Brothers drops to £0.32m

The marked fluctuation from year to year in the demand for pharmaceutical intermediates again took its toll on the results of Robinson Brothers (Ryders Green) for the first half of 1986.

This maker of organic chemicals experienced a downturn in turnover from £10.1m to £9.73m and in pre-tax profit from £730,000 to £322,000.

If the drop in demand continued for the rest of the year the profit would not approach the £952,000 achieved in 1985, the directors stated.

However, they were continuing to reduce the borrowings and they viewed the outlook with encouragement. New business was being developed from which substantial benefit was expected in 1987.

In 1983 the group made a profit of £890,000 after £798,000 for the first half, and in the following year went into a loss of £121,000 following a profit of £300,000 midway.

Second Alliance assets up

Net asset value at Second Alliance Trust showed a 33 per cent improvement to 898p at July 31 1986, against 677p a year earlier.

The dividend payout is being lifted to 18.5p (16.25p) per 25p share with a final up from 11.25p to 12.5p. Earnings are shown ahead at 20.29p (17.14p), andf or the current year they are running at almost 20p, the directors said.

Net revenue for this investment trust rose from £3.32m to £3.92m after lower tax of £1.85m.

The directors said economic growth was expected to be slow in the UK and abroad and inflation should continue at low levels. Business conditions would remain very competitive and difficult for other than quality companies, particularly in manufacturing, they predicted.

Dividends and interest received totalled £6m (£5.6m), while other income for the year added an unchanged £30,000.

Crusts exceeds forecast

Crusts, operator of bistro theme restaurants, has exceeded profit and dividend forecasts for the year ended June 29 1986.

When it came to the USM last November it was looking for a minimum pre-tax profit of £560,000 and a dividend of 0.7p. In the event, the profit was £614,000, compared with £326,000 in 1984-85, while the final dividend is 0.71p for a net total of 1.06p.

Mr Robert Sneesby, chairman, said the company made sound progress and was more strongly based than ever. It was seeking acquisitions in all areas of the business and was making its entry into franchising.

Management, released from the time-consuming preparations involved with the USM debut, had been able to concentrate more on the business. That had led to a significant improvement in performance.

Turnover in 1985-86 rose to £4.4m (£2.34m) and operating profit to £766,000 (£396,000). There was no tax charge this time and earnings were shown at 10.99p (9.37p restated).

Elys (Wimbledon) looks to second half

Elys (Wimbledon), the department store, is looking to the second half to redress a profit setback.

In the first half to August 2 1986 it was affected by the cost of development, and its pre-tax profit fell from £32,151 to £1,831. Turnover moved up to £3.75m (£3.45m), which the directors considered satisfactory as the development was not completed until early June.

The second half, the directors hoped, would reflect the benefit of the development for the entire period.

Earnings for the six months were 0.09p (3.77p) after tax £732 (£36,968). The interim dividend is hel dat 1p net.

Last year — the 53 weeks ended February 1 1986—proved to be the best period in the company's history, with profits up from £473,000 to £500,000. The dividend was 9.5p.

No rescue for Blacks Leisure

BY TERRY POVEY

Blacks Leisure Group is urging shareholders to discount speculation of a white knight appearing to rescue the company.

The board is recommending acceptance of a bid from Sears Holdings of 3.6p a share. This *is only just over half Blacks'* share price when the offer was made, is less than the 4½p close on Friday and below the stock's 10p par value.

In a statement Blacks Leisure's directors said that they wished to "state categorically that no firm alternative proposals have been received and that such approaches as have been made have either disappeared or have not been supported by sufficiently convincing evidence of the availability of the necessary finance to warrant further consideration."

The problems at quality tent maker Blacks Leisure developed not long after it reversed into Greenfields Leisure.

UK COMPANY NEWS

Saatchi's Italian operation in merger

By Alan Friedman in Milan

Saatchi and Saatchi, the leading UK advertising group, is expected to announce later this week plans to merge its Italian subsidiary — Compton Saatchi and Saatchi—with MVL, a Milan-based agency which is involved almost exclusively in commercial television work.

The new company, in which Saatchi will own a 50.1 per cent stake, is likely to rank as Italy's fifth largest advertising agency, with combined billings of L110bn ($52.4m) annually. Compton is presently Italy's 13th largest agency while MVL ranks as 22nd largest with L45bn of advertising revenue.

The deal, which has been under negotiation for nearly a year, involves only a nominal cash payment by Saatchi (less than £1m) to Mr Robert Lasagna, the MVL director, and his partners.

Mr Lasagna, an Anglo-Italian who has pioneered television advertising in Italy and who has close ties with Mr Silvio Berlusconi, the Italian commercial television magnate, will be appointed as managing director of the new combined advertising company.

Mr Jean Pierre La Rue, of Saatchi's Compton subsidiary, becomes chairman of the new group. Mr Lasagna and his partners will own 49.9 per cent of the new company, which expects total billings of L120bn in 1987. Among the international clients which Saatchi is bringing to the deal are Nabisco and Proctor and Gamble.

Capital restructuring plans from IFICO

BY TERRY POVEY

Industrial Finance and Investment Corporation (IFICO), has announced a capital restructuring by which control of the USM-quoted financial services group could pass to Unity Corporation, the rapidly-expanding Australian investment group headed by Mr Garry Carter.

On September 25, shareholders in IFICO will be asked to approved a series of resolutions that will allow the board to proceed with the acquisition for an initial consideration of £4.25m of the Colchester-based insurance brokers FARR which is to be funded by a vendor placing of 5.67m shares at 75p each to APA, the insurance arm of Unity Corporation. This will give Unity a 40.73 per cent stake in the expanded IFICO.

Also on the extraordinary meeting's agenda will be proposals for a one-for-five rights issue of 2.78m shares at 75p to raise £2m after expenses. Unity, through APA, is going to subscribe to its full entitlement and will underwrite the rest of the issue. In the event of Unity being left with all the shares from the rights, its stake in IFICO will be just over 50 per cent.

The restructuring arrangements are attractive to IFICO as the company wants to expand its capital base and range of activities. However, this year it has suffered a sharp fall in earnings per share from 14.7p in the year to June 1985 to 3.7p. In addition this year it was obliged to make an after-tax write-off of £1.4m following the failure of an investment to live up to expectations.

The financial services company's shares peaked at 238p in March 1985 but were suspended in July at 89p after an announcement by the board that a loss for the year to June was expected and that the company was seeking fresh financial backing. In late August, after the announcement of the proposed arrangement with Unity, Mr Terry Ramsden's Glen International took an almost 11 per cent stake in IFICO, making him the largest single shareholder, saying that it was a "very interesting situation."

Unity Corporation was founded in late 1984 by Mr Carter, formerly an accountant with Price Waterhouse. He had also spent 15 years directing his family property development and investment company. Today its corporate base in Australia consists of four divisions—financial services, property, equity investment and manufacturing.

Financial services consists of UCL Finance, Unity Mortgage Corp and, since earlier this year, of the 86 per cent owned APA Holdings, the quoted life insurance and fund management group.

APA has about A$300m funds under management plus a A$70m investment portfolio. All the various financial services activities of Unity are due to sold in to APA in the near future — hence the use of the insurer as the vehicle for the Ifico move. APA is currently negotiating to purchase the Los Angeles-based Universal Savings Bank, which has assets of US$300m.

In London, Unity have announced plans to purchase, via Stirling, 7.1m shares at £1 each in New Cavendish Estates, a small listed property company. Unity will also offer £1 share to all existing shareholders. Control of New Cavendish will give the Australians a UK property arm.

At the end of April, Unity Corps' quoted members had a market capitalisation totalling A$450m of which A$200m was the parent company's share.

The Bank of England will have to consider Unity's suitability as a parent for Ifico if shareholders approve the capital restructuring plan as the UK company owns a licensed deposit taker. The Stock Exchange has already cleared the vendor placing arrangements. Laing & Cruikshank are advising Ifico and Unity is drawing on the services of Hoare Govett.

Reabrook held back by costs of investment

The rate of profit growth at Reabrook Holdings was arrested in the first half of 1986 as a result of further investment in sales people and trading, together with the initial costs of the new Greenhill powder filling plant.

The group, which principally makes chemical products, increased turnover from £5.86m to £7m, trading profit from £547,000 to £556,000, and pre-tax profit from £455,000 to £485,000.

They are looking for a further increase in profits in the second half.

Earnings were 3.9p (3.3p) and the interim dividend is 0.9p

Ford & Weston profits on target at midway

Ford & Westen Group, building contractor with substantial interests in shopfitting which came to the USM at the end of June, was well up to budget, the directors report.

In the 26 weeks ended March 30, 1986 the group had a turnover of £18.49m and a pre-tax profit of £254,000, and the figures reflected the encouraging start made to the year. In the prospectus £925,000 was forecast for the year.

Since the flotation several substantial new customers had been added by the shopfitting subsidiary, Gibson Lea, and the demand for Slatwall, the company's own shelving system, was exceeding expectations.

Recently the company completed the sale of land in St Albans with planning permission for an office block to Guardian Royal Exchange. The price was £1.12m against a book value at September 29, 1985 of £840,000.

Under the terms, the company had the opportunity to tender for the office building to be built and would, in addition to profits of the property, be entitled to a proportion of the eventual profits of the redevelopment.

Any profit on the sale of the property would only be taken as and when the outcome of the overall development was established.

After tax of £93,000, earnings per share came out at 2.2p.

Wyndham better than expected

The Wyndham Group of steel fabricators and general machinists was over target for the year ended March 31 1986. Against a forecast of not less than £175,000, it turned in a pre-tax profit of £189,000.

The final dividend is the promised 1p to lift the total from 1.5p to 1.8p net. This and the profit forecast were made in the abortive attempt to acquire John Williams of Cardiff in April.

Turnover was £2.22m (£2.61m). After tax £21,000 (£30,000) the net profit came through at £168,000 to (£81,000).

Earnings were 7.7p (4.98p) but 0.86p after the extra-son said earnings per share has ordinary charge.

PENDING DIVIDENDS

Dates when some of the more important company dividend statements may be expected in the next few weeks are given in the following table. The dates shown are those of last year's announcements except where the forthcoming board meetings (indicated thus*) have been officially notified. Dividends to be declared will not necessarily be at the amounts in the column headed "Announcement last year."

	Date	Announcement last year
Amstrad	Oct 2	Final 0.616
*Assoc British Ports	Sept 10	Interim 1.4575
*BAT Industries	Sept 10	Interim 4.75
*BICC	Sept 10	Interim 3.5
*BTR	Sept 10	Interim 3.75
Bank of Scotland	Sept 25	Interim 5.5
Barratt Developments	Sept 24	Final 5.21
*Bibby (J.)	Oct 8	Interim 4.0
*Boddingtons Brews	Sept 18	Interim 1.25
*Booker	Sept 9	Interim 3.75
*Bowater	Sept 11	Interim 5.0
*Brent Chems	Sept 24	Interim 0.85
*Bridon	Sept 17	Interim 1.5
*British Vita	Sept 8	Interim 3.3
*Brixton Estate	Sept 16	Interim 2.2
Brown Boveri Kent	Sept 19	Interim 1.0
*Burmah Oil	Sept 11	Interim 4.5
Coats Viyella	Sept 17	Interim 1.9
Combined Eng Stores	Sept 23	Interim 2.45
*Cons Gold Fields	Sept 16	Final 18.0
*Costain	Sept 10	Interim 5.0
*Croda Intl	Sept 16	Interim 3.0
*DRG	Sept 10	Interim 3.3
*Dalgety	Sept 15	Final 14.0
*Delta	Sept 17	Interim 2.28
Enterprise Oil	Sept 16	Interim 2.5
*Eurotherm	Sept 11	Interim 1.7
*Expamet Intl	Sept 9	Interim 2.35
*Fisons	Sept 16	Interim 2.15
Foseco	Sept 27	Interim 2.95
Freemans	Sept 23	Interim 2.3
Glaxo	Oct 14	Final 14.0
Hammerson Prop	Oct 14	Interim 2.0
*Hepworth Ceramic	Sept 11	Interim 2.9
Higgs and Hill	Oct 9	Interim 5.0
*Ibstock Johnsen	Oct 2	Interim 1.5
*Inchcape	Sept 29	Interim 7.15
Lasmo	Sept 3	Interim 4.5
*Laing (J.)	Sept 11	Interim 2.0
*Laird	Sept 9	Interim 2.4
Laporte	Sept 19	Interim 3.2
Legal and General	Sept 18	Interim 8.5
London and Edinburgh Tst	Oct 7	Interim 3.0
*Lond Merchant Securities	Sept 9	Final 1.5
*Low and Bonar	Sept 8	Interim 3.8
MAI	Sept 26	Final 12
*McAlpine (A.)	Sept 9	Interim 3.0
*Menzies (J.)	Sept 29	Interim 1.35
Minet	Oct 2	Interim due
Morgan Crucible	Sept 12	Interim 3.5
Mowlem (John)	Oct 14	Interim 4.0
*Pearson	Sept 9	Interim 4.25
*Prudential	Sept 10	Interim 9.0
RMC	Sept 25	Interim 4.6
*Ransomes Sims	Sept 15	Interim 1.5
*Reckitt and Colman	Sept 17	Interim 6.0
*Rio Tinto-Zinc	Sept 16	Interim 7
Rockware	Oct 14	Interim due
*Rowntree Mackintosh	Sept 11	Interim 4.0
Rugby Portland Cement	Sept 30	Interim 2.9
Senior Eng	Oct 14	Interim 0.625
*Simon Eng	Sept 15	Interim 2.5
*Sketchley	Sept 22	Interim 5
*Stewart Wrightson	Sept 16	Interim 6.3
*Tarmac	Sept 22	Interim 2.2
Tozer Kemsley	Oct 11	Interim due
Travis and Arnold	Sept 17	Interim 1.95
Turner and Newall	Sept 12	Interim 1.25
UEI	Oct 14	Interim 2.0
*Utd Biscuits	Sept 17	Interim 2.85
*United Newspapers	Sept 25	Interim due
*Vickers	Sept 25	Interim 5
*Willis Faber	Sept 9	Interim 5.0
*Wimpey (G.)	Sept 25	Interim 0.85
*Woolworth	Sept 17	Interim 3.0

*Board meeting intimated. † Rights issue since made. ‡ Tax free. § Scrip issue since made. ¶ Forecast.

BOARD MEETINGS

The following companies have notified dates of board meetings to the Stock Exchange. Such meetings are usually held for the purpose of considering dividends. Official indications are not available as to whether the dividends are interims or finals and the sub-divisions shown below are based mainly on last year's timetable.

TODAY

Interims: Barham, British Vita, Friendly Hotels, Low and Bonar, Mellerware International, Micro Business Systems, Sherwood Computer Services, Technology Project Services.

Finals: F. Copson.

FUTURE DATES

Interims—

Accord Publications	Sept 11
Blockleys	Sept 10
Canning (W.)	Sept 22
Cory (Horace)	Sept 19
DRG	Sept 10
Beecham Clothes	Sept 10
Fisons	Sept 16
Henderson Administration	Nov 7
Invergordon Distillers	Sept 23
Manor National	Sept 23
Micro Business Systems	Sept 8
Moss Bros.	Sept 24
Ransom Inc.	Sept 17
Sherwood Computer Services	Sept 8
Soundtrac	Sept 15
T and S Stores	Sept 15
Television Services Intnl.	Sept 15

Finals—

Parker-Knoll	Sept 22
Pifco	Sept 12

F.T. Share Information

The following securities have been added to the Share Information Service:

Anglia Secure Homes (Section: Building, Timber, Roads)

Atlas Converting Equipment (Engineering)

G. T. Management (Trusts, Finance Land)

Hille Ergonom (Industrials)

Kenyon Securities (Industrials)

Personal Computers (Electricals)

Stanley Leisure (Leisure)

Value and Income Trust 6½ per Cent Cum. Conv. Red. Pref. (Investment Trusts)

Williams Hldgs. 5½ per cent Cuml. Conv. Red. Pref.

BASE LENDING RATES

	%		%
ABN Bank	10	Exeter Trust Ltd.	10½
Allied Arab Bank Ltd	10	Financial & Gen. Sec.	10
Allied Dunbar & Co	10	First Nat. Fin. Corp.	11
Allied Irish Bank	10	First Nat. Sec. Ltd.	11
American Express Bk.	10	● Robert Fleming & Co.	10
Amro Bank	10	Robert Fraser & Ptrs.	11
Henry Ansbacher	10	Grindlays Bank	‡10
Associates Cap Corp.	10	● Guinness Mahon	10
Banco de Bilbao	10	● Hambros Bank	10
Bank Hapoalim	10	Heritable & Gen. Trust	10
Bank Leumi (UK)	10	● Hill Samuel	§10
Bank Credit & Comm.	10	C. Hoare & Co.	10
Bank of Cyprus	10	Hongkong & Shanghai	10
Bank of Ireland	10	Knowsley & Co. Ltd.	10½
Bank of India	10	Lloyds Bank	10
Bank of Scotland	10	Mase Westpac Ltd.	10
Banque Belge Ltd	10	Meghraj & Sons Ltd.	10
Barclays Bank	10	Midland Bank	10
Benchmark Trust Ltd	10	● Morgan Grenfell	10
Beneficial Trust Ltd	10	Mount Credit Corp. Ltd.	10
Berliner Bank AG	10	National Bk. of Kuwait	10
Brit. Bk. of Mid. East	10	National Girobank	10
● Brown Shipley	10	National Westminster	10
CL Bank Nederland	10	Northern Bank Ltd.	10
Canada Permanent	10	Norwich Gen. Trust	10
Cayzer Ltd	10	PK Finans. Intl (UK)	10½
Cedar Holdings	11	Provincial Trust Ltd	11
● Charterhouse Bank	10	R. Raphael & Sons	10
Citibank NA	10	Roxburghe Guarantee	11
Citibank Savings	¶10.85	Royal Bank of Scotland	10
City Merchants Bank	10	Royal Trust Co. Canada	10
Clydesdale Bank	10	Standard Chartered	10
Comm. Bk. N. East	10	Trustee Savings Bank	10
Consolidated Credits	10	UDT Mortgage Express	¶10.8
Continental Trust Ltd	10	United Bank of Kuwait	10
Co-operative Bank	*10	United Mizrahi Bank	10
The Cyprus Popular Bk	10	Westpac Banking Corp	10
Duncan Lawrie	10	Whiteaway Laidlaw	10½
E. T. Trust	11	Yorkshire Bank	10
Equatorial Tst Corp. plc	10		

● Members of the Accepting Houses Committee. * 7-day deposits 5.69%. 1-month 6.09%. Top Tier—£2,500+ at 3 months' notice 9.72%. At call when £10,000+ remains deposited. ‡ Call deposits £1,000 and over 6¼% gross. ¶ Mortgage base rate. § Demand deposit 5.82%. Mortgage 11%.

Capitalisatn. £000's	Company	Price	Change on week	Gross div.(p)	Yield %	P/E Actual	P/E Fully taxed
4,438	Ass. Brit. Ind. Ord.	132	—	7.3	5.5	8.1	7.5
—	Ass. Brit. Ind. CULS	131	—	10.0	7.6	—	—
6,078	Airsprung Group	105	—	7.8	7.2	6.6	5.9
875	Armitage and Rhodes	38	—	4.2	12.0	4.8	4.5
59,472	Bardon Hill	185	—	4.5	2.5	21.0	19.3
4,467	Bray Technologies	81	+1	4.3	5.3	9.6	8.8
305	CCL Ordinary	87	+2	2.9	3.3	8.2	9.7
1,068	CCL 11pc Conv Pref.	87	+1	15.7	18.0	—	—
14,458	Carborundum Ord.	241	−1	9.1	3.8	11.6	11.9
661	Carborundum 7.5pc Pf.	93	—	10.7	11.5	—	—
6,105	Deborah Services	78	—	7.0	9.0	8.1	10.7
3,323	Frederick Parker Group	23	−0½	—	—	—	—
2,158	George Blair	117	−3	3.8	3.2	3.0	4.3
2,884	Ind. Precision Castings	71	—	3.0	4.2	18.7	16.7
13,224	Isis Group	166	−1	18.3	11.0	9.5	7.4
6,457	Jackson Group	124	—	6.1	4.9	8.4	7.8
52,391	James Burrough	374	−3	17.0	4.5	10.5	9.8
3,432	James Burrough 9pcPf.	98	—	12.9	13.2	—	—
5,836	John Howard Group	58	—	5.0	8.8	—	—
[illegible]	Multihouse NV	850	−30	—	—	44.5	58.1
8,625	Record Ridgway Ord.	375	+1	—	—	6.7	11.8
2,433	Record Ridgway 10pcPf	89	—	14.1	15.8	—	—
785	Robert Jenkins	75	—	—	—	3.3	4.7
1,710	Scruttons "A"	38	—	—	—	—	—
2,709	Torday and Carlisle	111	+1	5.7	5.1	6.7	6.8
1,460	Trevian Holdings	322	—	7.9	2.5	6.7	8.8
13,800	Unilock Holdings	68	—	2.8	4.1	12.7	11.9
24,889	Walter Alexander	192xd	—	9.9	5.2	9.2	8.8
4,898	W. S. Yeates	197	—	17.4	8.8	19.7	21.9

FINANCIAL TIMES STOCK INDICES

	Sept. 5	Sept. 4	Sept. 3	Sept. 2	Sept. 1	August 29	1986 High	1986 Low	Since Compilation High	Since Compilation Low
Government Secs.	88.47	88.76	88.98	89.60	89.72	89.64	94.51	80.39	127.4	49.18
Fixed Interest	94.84	95.01	95.00	95.25	95.30	95.62	97.68	86.55	150.4	50.53
Ordinary	1338.4	1334.3	1324.6	1320.0	1322.7	1311.9	1425.9	1094.3	1425.9	49.4
Gold Mines	308.6	281.2	283.5	268.0	262.0	249.4	357.0	185.7	734.7	43.5
FT-Act All Share	830.45	827.76	823.75	821.94	822.97	817.06	832.39	664.42	832.39	61.92
FT-SE 100	1684.8	1680.3	1670.7	1667.8	1672.8	1661.2	1717.6	1370.1	1717.6	986.9

LONDON RECENT ISSUES

EQUITIES

Issue Price	Amount Paid up	Latest Renunc. Date	1986 High	1986 Low	Stock	Closing Price	+ or −	Net. Div.	Times Cov'd	Gross Yield	P.E. Ratio
168	F.P.	5/9	185	165	Acatos & Hutcheson50p	185	+1	bd 5.25	2.9	4.0	12.3
§67	F.P.	8/8	71	68	✣BBB Design Grp 5p	68	......	L1.0	4.2	2.1	16.3
‖‖	F.P.	—	318	280	BTR Nylex A$0.50	303	......	Q15c	2.7	2.1	17.7
‖‖	F.P.	—	53	41	Bertrams Inv. Tst	43	......	—	—	—	—
§43	F.P.	—	59	50	✣Broad St. Grp.10p	58	−1	b1.1	2.2	2.7	24.0
100	F.P.	4/9	85	84	Child Med C.IT£1‡‡	85	......				
§110	F.P.	12/9	124	111	✣Coline Int 5p	120	......	R2.7	3.4	3.2	13.1
134	F.P.	—	161	134	✣F & H Group 10p	161	+1	L4.76	2.5	4.2	13.3
150	F.P.	25/7	172	150	Guthrie Corp	172	......	u5.3	2.2	4.3	11.0
150	F.P.	15/8	165	156	Harrison Inds. 10p	162	......	g5.0	2.7	4.3	12.1
105.25	F.P.	—	108	104	India Fund £1	108	......	—	—	—	—
—	F.P.	29/8	£39	£36	JF Pacific Warrant S.A.	£38½	......	—	—	—	—
110	F.P.	5/9	98	90	✣Marina Dev. 50p	95	......	R3.13	3.0	4.6	9.1
§33	F.P.	29/8	34	27	✣Omnitech 1p	30	......	—	—	—	—
§165	F.P.	1/8	184	257	✣Smallbone 10p	160	......	u6.0	2.1	4.4	14.9
145	Nil	3/10	21pm	11pm	Sutcliffe Speak Utst	21pm	+1	—	—	—	—
130	F.P.	21/8	169	137	✣TV-am 10p	169	+3	R5.75	2.6	4.8	11.3
‖‖	F.P.	—	163	152	VSEL Consortium £1	163	......	W5.68	4.3	4.9	5.1
††	F.P.	—	100	95	Welsh Ind. Inv. Tst. 5p	95	......	—	—	—	—
125	F.P.	—	156	150	Yorkshire TV	150	......	R6.25	2.4	5.9	10.2

FIXED INTEREST STOCKS

Issue Price £	Amount Paid up	Latest Renunc Date	1986 High	1986 Low	Stock	Closing Price £	+ or −
£100	£10	23/10	10½	9½	Bournem'th & Dist Wtr 10⅛%Rd Db 1996	10½	+⅛
‖	Nil	10/10	3pm	2pm	Egerton Tst 7% Cv Cm Red Pf	2pm	......
99.160	F.P.	24/10	101⅛	99½	Elect & Gen. Inv. 10¼% Deb. 2011	101	+¼
¶¶	F.P.	—	92	86	Hollis 252% Cnv. Subord. Ln. 1988 (2½p)	89	......
—	—	—	29	27½	JF Pacific Warrant S. A. Pref.	28¾	+⅛
105.523	F.P.	21/8	106½	98½	Land Securities 10% 1st. Mort. Deb.25	100	......
§100	F.P.	—	105	105	Mountleigh 5.25% Cnv. Cum. Prf.	105	......
§99.937	£25	24/10	25¼	23¾	Nationwide 3⅞% 11 Ln. 2021	25¼	......
—	F.P.	—	100⅛	100	Do 10⅛% 17/8/87	100	......
—	F.P.	—	100⅛	99⅞	Do 9⅞% 7/9/87	99⅞	......
§100	£10	—	10	10	Portsmouth Water 10⅛% RedDeb 1996	10⅛	+⅛
‖	Nil	—	8¼	8¼	Rush & Tomkins7.5%Cnv.Cum.Red.Prf.£1	8¼	......
‖	F.P.	30/9	106p	100p	Scantronic 5.75% Cnv. Cum. Red. Prf.	102p	......
96.645	£25	—	24¾	24¼	Scot. Met. Prop. 10⅛% 1st Mort. Deb. 2016	24½	......

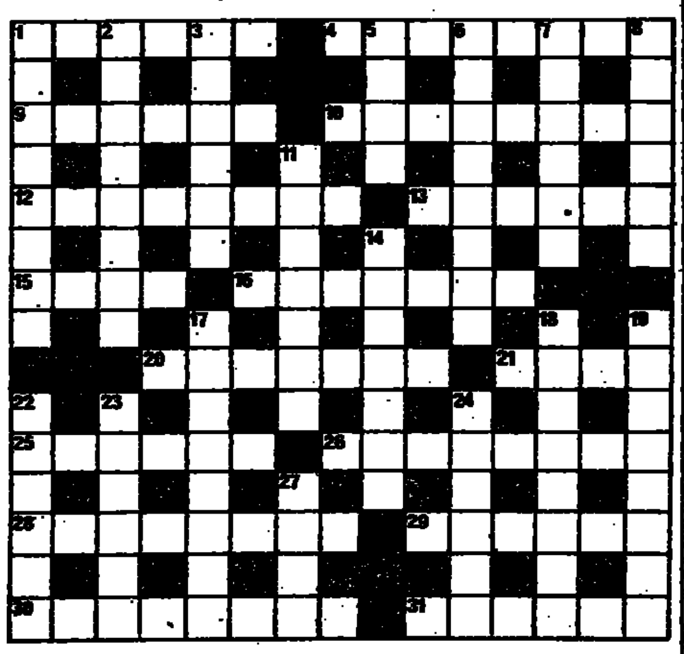
"RIGHTS" OFFERS

Issue Price	Amount Paid up	Latest Renunc Date	1986 High	1986 Low	Stock	Closing Price p	+ or −
R2.50	Nil	—	350pm	338pm	Algemene Bank Fl100	338pm	......
168	Nil	10/10	23pm	17pm	Allied Irish Banks	23pm	+2
2	F.P.	10/10	7	3½	Assoc. Brit. Eng. 1p	7	......
190	F.P.	24/10	215	196	BBA Group	215	......
200	Nil	—	8pm	5pm	Berkeley Technology	7pm	......
138	Nil	10/10	7pm	2pm	Brown & Tawse	7pm	+1
276	Nil	14/10	30pm	25pm	FII Group	25pm	......
34	F.P.	6/10	39	37	Forward Tech	38	......
450	F.P.	26/9	495	488	Marler Estates	493	......
315	Nil	—	27pm	18pm	Sedgwick Group 10p	27pm	......
390	F.P.	3/10	507	495	WPP Group 10p	505	......

Renunciation date usually last day for dealing free of stamp duty. a Annualised dividend. b Figures based on prospectus estimates. d Dividend rate paid or payable on part of capital, cover based on dividend on full capital. g Assumed dividend and yield. h Assumed dividend and yield after scrip issue. F Forecast dividend cover on earnings updated by latest interim statement. H Dividend and Yield based on prospectus or other official estimates for 1987. L Estimated annualised dividend, cover and p/e based on latest annual earnings. R Forecast annualised dividend, cover and p/e ratio based on prospectus or other official estimates. W Pro Forma Figures t Indicated dividends; cover relates to previous dividend; p/e ratio based on latest annual earnings. u Forecast, or estimated annualised dividend rate, cover based on previous year's earnings. ¶ Issued by tender. ‖ Offered holders of ordinary shares as a "rights." ‖‖ Introduction. ** Issued by way of capitalisation. § Placing price. §§ Reintroduced. ¶¶ Issued in connection with reorganisation merger or takeover. ▦ Allotment price. ✣ Unlisted securities market. †† Official London listing. ‡‡ Including warrants entitlement † Unit comprising of 1 New Ord., 1 9½% Red Prf. and 1 warrant.

FT CROSSWORD PUZZLE No. 6119

QUARK



ACROSS

1 and 4 Able to plead for help at the pumps? (6,2,3,3)
9 Going, disheartened, in river for carp (6)
10 Questionable way of treating food? (8)
12 Out of order, six—enter, put in again (8)
13 One with tench, struggling, in the river (6)
15 Society in the past provided this cereal (4)
16 Maybe clock a kind of monster (7)
20 Without rust treatment —— ——— (accompanying beef?) (7)
21 Circle provides greeting (not including beginner) (4)
25 Baffled by cricket ball unfairly delivered? (6)
26 In ebbing tides people might see it (8)
28 Knight is allowed to (8)
29 Endlessly ring one company for cloth (6)
30 Pulled up one 20 and became effective? (4,4)
31 Note the boil here (6)

DOWN

1 Study unusual Arts subject finally for distinction (8)
2 Urging in old money for some extra cover (8)
3 Engage in non-English steel, perhaps (6)
5 They often have a row (4)
6 School break (incomplete expression) (4-4)
7 Left in the bay? Curse! (6)
8 and 22 Tourists spend more than time in this way (6,6)
11 Enjoyment is the aim in this activity (7)
14 Severely affected? Hand in the money (7)
17 Rated as necessity in the house (3,5)
18 Look at elevator—needing a bit of renovation (4-4)
19 Ducks trapped in rough forest, could be? (8)
22 see 8
23 Retreat for a certain cove (6)
24 Silver copy? (6)
27 Star of the romantic film? (4)

The solution to last Saturday's prize puzzle will be published with names of winners next Saturday.

AUTHORISED UNIT TRUSTS

FT UNIT TRUST INFORMATION SERVICE

AUTHORISED UNIT TRUSTS & INSURANCES

Waverley Asset Management Ltd (a) (c) (g)
13 Charlotte Sq, Edinburgh 031-225 1551

Australasian Gold	20.1	21.4	+0.4	0.15
Pacific Basin	15.8	16.8	+0.2	0.2
Canadian Balanced Growth	58.4	62.4	+0.5	0.90
Clover Mint	100.6	105.8	—	7.3

WestAven Unit Trust Managers Ltd(a)(c)
9 Portland Square, Bristol BS2 8SS 0272 428491

British Smlr Co's (z)	56.3	60.0	+0.2	1.50
British Growth (z)	68.6	70.5	—	2.00
British Income (z)	47.9	49.8	—	5.00
British Extra Yield (z)	51.7	53.3	—	7.00

Whittingdale Unit Trust Managers
2 Honey Lane, London EC2V 8BT 01-606 9085/6

Short Dtd Gilt Fd	67.8	68.4	—	9.00
U.S. Govmt Bond Fd	50.512	0.519	—	—

Windsor Trust Mngrs Ltd
83 Kingsway, London, WC2B 6SD 01-405 8331

Growth & Equity Tst	49.9	53.1	+0.3	7.47
Growth Trust	53.7	57.2	+0.2	2.18
Income Trust	54.8	58.3	+0.4	5.00

Wright Seligman Fund Managers Ltd
11 Blomfield St, London EC2M 7AY 01-588 0592

Growth Fund	70.3	73.8	—	2.97

Weekly dealing day Tuesday

The Yorkshire General Trust
Woodsome Pk, Fenay Bdge, Huddersfield 0484 602250

Y.G.T.	128.5	136.9	+1.0	3.21

INSURANCES

AA Friendly Society
Investment Mngt M & G Inv Mngt Ltd
PO Box 93 Cardiff CF1 4WW 0222 35542

AA Friendly Sy Aug 6	—	103.1	—	—

Abbey Life Assurance Co Ltd
80 Holdenhurst Road, Bournemouth 0202 292373

Prop. Ser. 1	207.1	218.1	—	—
Equity Ser. 1	106.1	111.7	+0.5	—
Prop. Acc. Ser 2	278.7	293.4	—	—
Equity Ser 2	115.4	121.5	+0.7	—
Selective Acc.	243.6	256.5	+0.7	—
Prop. Ser. 4	220.1	231.7	—	—
Equity Ser. 4	118.1	124.4	+0.6	—

[illegible]

City of Edinburgh Life Assurance
44 Charlotte Sq, Edinburgh EH2 4HQ 031-225 1655

Ivory & Sime Bond	103.8	109.0	+1.0	—
Risk & Reward Bond	120.0	127.0	—	—
Murray Johnstone Fd	124.0	131.0	—	—
Money Market Fd	101.0	107.0	—	—
Ivory & Sime Pens Fd	104.0	110.0	—	—
Risk & Reward Pens Fd	102.0	108.0	+1.0	—
Murray J'stone Pens Fd	122.0	129.0	—	—
Money Market Pens Fd	101.0	107.0	—	—

City of Westminster Assurance
Scoby House, 500 Avebury Boulevard, Cent. Milton Keynes MK9 2LA Tel: 0908 606101/660888

Current Series				
Property Fund	113.0	119.0	—	—
Money Fund	221.8	233.5	+0.1	—
Managed Fund	411.4	433.1	+0.8	—
Equity Fund	257.1	270.7	+0.1	—
Fixed Interest Fund	149.8	157.7	+0.6	—
Far East Fund	216.7	228.1	+0.7	—
North American Fund	176.5	185.8	+2.1	—
Natural Resources Fund	134.6	142.0	+0.5	—
Pension Managed Fund	383.9	404.2	+1.2	—
Pension Equity Fund	243.1	255.9	−0.3	—
Adventurous Mngd Fd	109.5	115.3	+0.2	—
Balanced Mngd Fd	105.9	111.5	+0.2	—
Conservative Mngd Fd	105.9	111.5	+0.2	—
European Fund	105.5	111.1	—	—
International Fund	104.9	110.5	−0.1	—

For other prices please telephone 0908 606101/660888

Clerical Medical/Fidelity International
Narrow Plain, Bristol BS2 0JH 0272 290566

Investment Funds				
Mixed	135.4	142.6	−0.2	—
Equity	154.8	163.0	+0.5	—
Property	109.0	114.8	—	—
Gilt & Fixed Interest	115.2	121.3	−1.0	—
Indexed Securities	101.4	106.8	—	—
Cash	107.3	113.0	+0.1	—
North American	108.5	114.1	−0.9	—
Far East	131.8	138.8	−0.4	—
International	126.5	133.2	−0.4	—
Special Situations	147.1	154.9	−0.6	—
International Income	142.0	149.5	+0.1	—
American Income	116.8	123.0	−0.3	—
European	150.0	157.9	−1.1	—
Flexible Retirement Plan				
Mixed	140.1	147.5	−0.1	—
Equity	150.1	158.1	+0.4	—
Property	114.3	120.4	—	—
Gilt & Fixed Interest	121.6	128.0	+0.2	—
Indexed Linked	105.1	110.7	+0.1	—
Cash	115.2	121.3	—	—

[illegible]

INSURANCE, OVERSEAS & MONEY FUNDS

MANAGEMENT SERVICES

OFFSHORE AND OVERSEAS

Money Market Trust Funds

Money Market Bank Accounts

TRADITIONAL OPTIONS

3-month call rates

Industrials	p		
Allied-Lyons	30	MEI	11
Amstrad	23	Nat West Bk.	48
BAT	35	P & O Dfd	45
BOC Grp.	28	Plessey	18
BSR	11	Polly Peck	36
BTR	28	Racal Elect.	16
Babcock	37	RHM	20
Barclays	45	Rank Org Ord.	45
Beecham	40	Reed Intnl	75
Blue Circle	55	STC	16
Boots	22	Sears	12
Bowaters	30	TI	42
Brit Aerospace	45	Tesco	32
Brit. Telecom	17	Thorn EMI	40
Burton Ord	28	Trust Houses	15
Cadburys	17	Turner Newall	18
Charter Cons.	22	Unilever	120
Comm Union	28	Vickers	40
Courtaulds	26	Wellcome	17
FNFC	17	**Property**	
Gen Accident	75	Brit Land	16
Gen Electric	17	Land Secs.	30
Glaxo	85	MEPC	32
Grand Met	34	Peachey	24
GUS 'A'	85	Samuel Props	25
Guardian	75	**Oils**	
GKN	32	Brit. Oil & Min.	2½
Hanson Tst.	16	Brit Petroleum	48
Hawker Sidd.	40	Burmah Oil	30
ICI	55	Charterhall	4
Jaguar	38	Premier	3½
Ladbroke	32	Shell	55
Legal & Gen	24	Tricentrol	11
Lex Service	28	Ultramar	18
Lloyds Bank	38	**Mines**	
Lucas Inds	52	Cons Gold	40
Marks & Spencer	18	Lonrho	24
Midland Bk.	44	Rio T Zinc	50
Morgan Grenfell	30		

A selection of Options traded is given on the London Stock Exchange Report Page.

LONDON SHARE SERVICE

BRITISH FUNDS

Interest Due		Stock	Price £	Last xd	Yield Int.	Yield Red.
		"Shorts" (Lives up to Five Years)				
29 Apr	29 Oct	Exch. 14pc 1986	[illegible]	24.3	13.94	10.16
21 May	21 Nov	Exch. 2½pc 1986	[illegible]	14.4	2.55	7.86
22Jul	22Jan	Exch. 13½pc 1987	[illegible]	16.6	13.09	9.80
10 Aug	10 Feb	Treas 10½pcCv '87	[illegible]	14.7	10.29	9.84
24Aug	24Feb	Exch 2½pc 1987	97¼	18.7	2.56	7.50
6Oct	6Apr	Exch. 10½pc 1987	[illegible]	1.9	10.45	9.80
1 Nov	1 May	Funding 6½pc '85-87‡‡	[illegible]	25.3	6.61	9.09
12Dec	12Jun	Treas. 10pc 1987	[illegible]	5.5	9.99	9.74
14Jan	14Jly	Treas 3pc 1987	[illegible]	30.6	3.11	7.55
3May	3Nov	Treas. 12pc 1987	[illegible]	28.3	11.74	9.79
26 Jul	26 Jan	Treas 7¾pc 1985-88‡‡	97¾	19.6	7.94	9.57
10Nov	10May	Exch 10½pc '88	101	3.4	10.40	9.79
14Dec	14Jun	Treas 9½pc Cv '88	[illegible]	8.5	9.76	9.76
1Jan	1Jul	Transport 3pc '78-88	[illegible]	27.5	3.24	7.34
25 Apr	25 Oct	Treas. 9½pc '88	[illegible]	19.3	9.55	9.77
22 Aug	22 Feb	Treas 11½pc 1989	[illegible]	16.7	11.06	9.63
18 Oct	18 Apr	Treas 9½pc Cnv. '89	[illegible]	12.3	9.54	9.65
15Nov	15May	Treas 5pc 1989	[illegible]	8.4	3.34	7.27
14Dec	14Jun	Treas 10½pc 1989	[illegible]	8.5	10.30	9.66
1Feb	1Aug	Exch 10pc 1989	[illegible]	25.6	9.93	9.68
29 Mar	29 Sep	Exch 11pc 1989	[illegible]	26.8	10.61	9.59
15 Apr	15 Oct	Treas 5pc 1986-89	[illegible]	10.3	5.50	8.37
15 May	15 Nov	Exch 10½pcCv '89	[illegible]	8.4	9.88	8.84
15 Jul	15 Jan	Treas 13pc 1990‡‡	[illegible]	9.6	11.85	9.49
12 Aug	12 Feb	Exch 11pc 1990‡‡	[illegible]	7.7	11.56	9.54

[illegible]

Five to Fifteen Years

[illegible]

Over Fifteen Years

[illegible]

Undated

[illegible]

Index-Linked

[illegible]

INT. BANK AND O'SEAS GOVT STERLING ISSUES

[illegible]

CORPORATION LOANS

[illegible]

COMMONWEALTH & AFRICAN LOANS

[illegible]

LOANS

Building Societies

[illegible]

Public Board and Ind.

[illegible]

Financial

[illegible]

FOREIGN BONDS & RAILS

[illegible]

AMERICANS

[illegible]

AMERICANS—Cont.

[illegible]

CANADIANS

[illegible]

BANKS, HP & LEASING

[illegible]

Hire Purchase, Leasing, etc.

[illegible]

BEERS, WINES & SPIRITS

[illegible]

BUILDING, TIMBER, ROADS

[illegible]

BUILDING, TIMBER, ROADS—Cont.

[illegible]

CHEMICALS, PLASTICS

[illegible]

DRAPERY AND STORES

[illegible]

DRAPERY & STORES—Cont.

[illegible]

ELECTRICALS

[illegible]

ENGINEERING

[illegible]

ENGINEERING—Continued

[illegible]

FOOD, GROCERIES, ETC

[illegible]

HOTELS AND CATERERS

[illegible]

INDUSTRIALS (Miscel.)

[illegible]

INDUSTRIALS—Continued

[illegible]

INDUSTRIALS—Continued

LEISURE—Continued

PROPERTY—Continued

INVESTMENT TRUSTS—Cont.

FINANCE, LAND—Cont.

MINES—Continued

O.F.S.

Diamond and Platinum

Central African

Finance

Australians

Tins

Miscellaneous

NOTES

OIL AND GAS

OVERSEAS TRADERS

PLANTATIONS

Rubbers, Palm Oil

Teas

MINES

Central Rand

Eastern Rand

Far West Rand

INSURANCES

MOTORS, AIRCRAFT TRADES

Motors and Cycles

Commercial Vehicles

Components

Garages and Distributors

NEWSPAPERS, PUBLISHERS

PAPER, PRINTING, ADVERTISING

SHIPPING

SHOES AND LEATHER

SOUTH AFRICANS

TEXTILES

TOBACCOS

TRUSTS, FINANCE, LAND

Investment Trusts

Finance, Land, etc

PROPERTY

LEISURE

REGIONAL & IRISH STOCKS

The following is a selection of Regional and Irish stocks, the latter being quoted in Irish currency.

"Recent Issues" and "Rights" Page 29
(International Edition Page 25)

This service is available to every Company dealt in on Stock Exchanges throughout the United Kingdom for a fee of £675 per annum for each security.

CONSTRUCTION CONTRACTS

Spread of work for Mansell

R. MANSELL, Croydon, has been awarded refurbishment and repair contracts worth over £8m including a cathedral, hospital, hotel, day centre, block of flats and office projects. Largest is the £2m refurbishment for Norwich Union Life Insurance at Bucklersbury House, EC4, involving five floors of offices above a bank and two floors of occupied offices, replacement of windows and formation of new plant room. Other work includes for the Greek Orthodox Church, a £700,000 reconstruction of the fire-damaged St Mary's Cathedral, Wood Green; an £820,000 conversion and alteration of a grade two listed three-storey detached house into five flats at Holland Park, for Featurebrook; a £1.1m refurbishment of two office blocks at Tamsin House, Haywards Heath for Lloyds Bank; £700,000 recladding and external repairs to Caroone House, Farringdon Street, EC4, for British Telecom; and a £550,000 refurbishment of a four-storey office building at 41-42 Botolph Lane, EC3, for Five Oaks Investment.

★

JOHN WILLMOTT WEST LONDON has been awarded a contract worth about £1.7m by the Westminster Roman Catholic Diocese Trustees for construction of a science technology, craft and design block at the Cardinal Wiseman School, Greenford, Middlesex.

Roadworks order from Hong Kong

An £18.5m roadworks contract in the central district of Hong Kong has been awarded to KIER INTERNATIONAL, a subsidiary of French Kier. Work is due to start next month for the Hong Kong Government and includes an underpass, overpass and pedestrian ways in the Harcourt Road, Connaught Road and Pedder Street areas. Other contracts include the 90 km Maslonokeng-Roma-Mafeting road reconstruction in Lesotho awarded by the Government of Lesotho (£2.6m); hospital ancillary works at the School of Health Sciences, Malawi (£0.7m) and reconstruction of the National Development Bank, Botswana (£0.8m) for the Governments of Malawi and Botswana respectively; and also in Africa the (£2.7m) urban infrastructure project in The Gambia for the Government of Gambia. In the Middle East, two marine projects involve a tanker berth refurbishment in Oman (£0.5m) for the Government of Oman and a seawater intake plant in Dubai (£2.6m) for the Korean Heavy Industries Construction Co.

French Kier to build for Sainsbury

FRENCH KIER MIDLANDS has been awarded contracts worth over £14m. Among them is the total development package for a supermarket in Wolverhampton for J. Sainsbury (£4.5m); extensions to the Computer Centre for Satman Developments (Birmingham), in Birmingham (£3.1m); refurbishment and extensions at Hoole Hall for The Wolverhampton and Dudley Breweries (£3.1m); a retail development in Walsall for Ravenseft Properties (£1.1m); together with work for Jephson Housing Association (£1m), Febourne Properties (£0.7m) and Birmingham Friendship Housing Association (£0.7m).

★

Contracts worth £3.4m have been awarded to A. H. GUEST, Stourbridge, an associate company in the Ford and Weston group. They include a £1.6m contract for Birmingham City Council for maintenance and repairs to 800 municipal homes, and a £1.2m contract for extensions and renovations, including a sports hall and gymnasium, at King Edward VI College, Stourbridge.

★

ASHBY & HORNER has won five contracts worth £9m. These include construction of an office, retail and residential scheme near the Barbican, in Carthusian Street, EC1, for Highambury House, and a 30,000 sq ft courtyard office development in Shepherds Bush for Sida Holdings. In St Albans Road, NW5, the company is building a crescent of 11 luxury four-storey town houses for Shelbourne Properties.

★

TAYLOR WOODROW CONSTRUCTION (NORTHERN), Darlington, has been awarded a £1.9m contract by Ward Building Systems to build a steel portal-framed single-storey building on a site at Sherburn, North Yorkshire. The project has started with completion scheduled for spring, 1987.

High Holborn office development scheme

WALTER LAWRENCE PROJECT MANAGEMENT has been appointed design and build contractor for construction of an eight-storey office building with ground floor retail space, at 34-36 High Holborn, WC1. The £2.6m development is for London & Bristol Development. It will provide 20,000 sq ft of flexible air-conditioned offices with partial access raised flooring. The basement will contain a light industrial unit. The building is designed in a post-modern style but also echoes some of the surrounding traditional architectural elements. The facade will be built of a mixture of buff stone and red granite with tubular steel decorative features and in the central archway at ground level there will be a large bronze by Eduardo Paolozzi. The side elevation on to Fulwood Place will have blue glazed bricks at ground level and alternate bands of red buff brickwork above topped with an arched metal rail running along the parapet.

The company also has a management contract worth £3m, for construction of an office and research building at Begbroke, near Oxford, for Solid State Logic.

Hunting Gate record orders

HUNTING GATE has won design and build contracts worth £17m during the past month—a record for the company. Among others, work is being carried out for Digital Equipment Company, Dorothy Perkins, Apex Storage Systems, Allied Dunbar and Prima Swift.

★

Hanover Housing Association has awarded a £1.97m contract for sheltered housing at Fontley Way, Roehampton, in south-west London, to JOHN MOWLEM & CO. Overlooking Richmond Park golf course, the project comprises erection of a part three- and part four-storey block of 50 flats for the elderly with two wardens' flats. Built on piled foundations the development is of traditional construction with pitched roofs, dry lined walls, sealed, double-glazed window units and a communal lift. Mowlem's work includes provision of a car park, various external works and a pumped sewage aand storm water system. Work has started for completion in November 1987.

★

Among refurbishment contracts worth about £1.5m awarded to Norcros Group company CRITTALL WINDOWS, Braintree, are two which include windows for famous London buildings—Alexandra Palace and 55 Broadway (London Transport headquarters). The Alexandra Palace order is for more than £250,000 worth of Duralife steel windows for the rebuilt main hall, destroyed in a fire six years ago. Steel windows — more than £300,000 worth—are also being supplied for 55 Broadway. They will be modern "look-alikes" of the original windows.

★

THE AE GROUP has been awarded contracts totalling £12.5m, placed by General Motor's Australian subsidiary Holden; the US Army; Peugeot and Renault in France, and the Peoples Republic of China.

APPOINTMENTS

Cont. Reinsurance chairman

Mr Philip Marcell has joined the CONTINENTAL REINSURANCE COMPANIES as chairman of its integrated Continental Reinsurance UK and Unionamerica operations. He was previously chief executive officer of American Reinsurance UK, a post he had held since 1983. Prior to that he spent five years with Jardine Insurance Brokers, where his responsibilities included planning the expansion of the company in the UK and US markets.

★

Mr John (Jack) Jeffrey has been appointed to the board of FURNESS WITHY (TERMINALS), which operates Walton container terminal, Felixstowe, and also provides management services for Tung Group container terminals worldwide. Mr Jeffrey is chairman of the Long Beach container terminal, Los Angeles, which is owned by the Tung Group.

★

Mr Graham Balaceck has joined the board of SWAN COURT GROUP (formerly WAICO), parent company of the insurance and financial services group comprising the Western Australian Insurance Co, Domestic & General Insurance Co, Tomson Bull & Co and Charterhouse Insurance Services.

★

Mr John H. Winter has been appointed managing director of COMMON BROTHERS, which company he joins from Providence Capitel.

★

AES DATA (UK) has announced that Mr Richard Kemp is joining the board as senior director responsible for national sales and support. Prior to joining the AES board, Mr Kemp was 10 years with Wordplex where he held various posts in general and sales management culminating in the post of managing director of Wordplex Information Systems.

★

TREND COMMUNICATIONS has appointed Mr Terry Forde as its new sales director. Mr Forde has just returned to the UK from California, where he was vice president and general manager with Digital Micro Systems Inc.

★

Mr Peter Lewis, who has been appointed managing director of WRAP FILM SYSTEMS, part of the Autobar Group, was previously general Manager and director of the company.

★

Mr Julian Coombes has been appointed financial director of MEGA, Tolworth. He was financial director of DFDS Danish Seaways.

★

THE SCOTTISH LIFE ASSURANCE COMPANY has appointed Mr James M. Finlay as company secretary. He will retain responsibility for staff administration and his title will be secretary and staff manager.

★

Mr Jack Nunnerley and Mr Frank Wild have been appointed directors of ANGLO MANX BANK. Mr Nunnerley served with Lloyds Bank for 43 years and was a joint general manager from 1971 until his retirement in 1977. He then became a non-executive regional director of the bank's southeast region until 1983. Since 1977 Mr Nunnerley has been non-executive chairman of Bulmer & Lumb and since 1981, a non-executive director of Illingworth, Morris. Mr Wild served with Lloyds Bank for almost 45 years; he was manager of the bank's Douglas (Isle of Man) branch from 1976 up to 1986 when he retired. In 1979 when the Isle of Man became a full centre, he was elected the first president of the centre.

★

At FENNOSCANDIA, London Mr Christopher Wegelius, managing director of Skopbank and a board member of FennoScandia since 1985, has been appointed chairman, succeeding Mr John N. Butterwick who has resigned.

★

REGENCY LIFE has appointed Mr Glyn Rodgers as marketing director. He was with Trident Life.

FINANCIAL DIARY

The following is a record of the principal business and financial engagements during the week. The board meetings are mainly for the purpose of considering dividends and official indications are not always available whether dividends concerned are interims or finals. The sub-divisions shown below are based mainly on last year's timetable.

TODAY

COMPANY MEETINGS—
Daejan Hldgs, CBI, Centre Point, New Oxford Street, WC, 12.00
Ingram (Harold), 82-84, Highcross, Leicester, 12.00
May and Hassell, Grand Hotel, Broad Street, Bristol, 11.00
Multitone Electronics, Ironmongers' Hall, Shaftesbury Place, Aldersgate, EC, 11.00

BOARD MEETINGS—
Finals:
Copson (F.)
Interims:
Barham
British Vita
Friendly Hotels
Low and Bonar
Mellerware Intnl
Micro Bus Systems
Sherwood Computer Services
Technology Project Service

DIVIDEND & INTEREST PAYMENTS—
British Bloodstock Agency 6.3p
Bulmer (H. P.) 3.053p
Chemical New York Gtd Fltg Rate Sub Nts 1996 $175.00
Christiania Bank OG Kreditkasse Fltg Rate Sub Nts 1994 $40.88
Cromane Consumer Products 7¼pcLn 1987-92 3⅝pc
D.J. Security Alarms 0.65p
Daejan Hldgs 9p
Damon Corp 5cts
First Interstate Overseas Gtd Fltg Rate Sub Nts $189.31
Lawrie Group 40p
Midland Intnl Fin Serv Gtd Fltg Rate Nts 1999 $403.65
Norbain Electronics 0.7p
Renold 7½pc2ndDb 1992-97 3¾pc
Rockwell Intnl 30cts
Rustenburg Platinum Hldgs 21.1954p
Sperry Corp 48cts
Treasury 10pc 2003 £4.8479
Wells Fargo and Co Fltg Rate Sub Nts 1994 $189.31
Yeoman Inv Tst 4.5p

TOMORROW

COMPANY MEETINGS—
Alphameric, Institute of Chartered Accountants, Moorgate Place, EC, 10.15
Danae Inv Tst, Friendly House, 21-24, Chiswell Street, EC, 12.00
Electric and General Inv, 28, Finsbury Square, EC, 4.30
Harris (Philip), Penns Hall Hotel, Penns Lane, Sutton Coldfield, Birmingham, 12.00
Latham (James), Leeside Wharf, Clapton, E, 2.30
Robertson Research, Brown's Hotel Dover Street, W, 12.00

BOARD MEETINGS—
Finals:
Cantors
Check-point Europe
Dialene
Fletcher Challenge
Intereurope Tech Services
Keco Tst
London Merchant Secs
New Darien Oil Tst
Pac Sales Org.
Ricardo Consulting Engs
Trade Promotion Services
Interims:
Blackwood Hodge
Booker
Dwek
Expamet Intnl
Fitch
H..wley
Hestair
Ipeco
Lopex
Laird Grp
Lowe Howard-Spink and Bell
McAlpine (Alfred)
Newman Inds
Pearson
Prov Financial
Savoy Hotel
Senior Eng
Willis Faber

DIVIDEND & INTEREST PAYMENTS—
Brookmount 1p
Tenneco Inc 76cts

WEDNESDAY SEPTEMBER 10

COMPANY MEETINGS—
AAH Hldgs, Cavendish Hotel, Jermyn Street, St James's, SW, 12.00
British Telecommunications, National Exhibition Centre, Birmingham, 2.30
Clive Discount Hldgs, 1, Royal Exchange Avenue, EC, 9.00
Compco Hldgs, May Fair Hotel, Berkeley Street, W, 10.00
Crown House, Connaught Rooms, Great Queen Street, WC, 11.00
Fleming Technology Inv Tst, 25, Copthall Avenue, EC, 10.30
Gibbs Mew, Compass Rose, Anchorage Park, Hilsea, Portsmouth, 4.15
Grosvenor Square Props, 59, New Cavendish Street, W, 12.00
United Leasing, Savoy Hotel, Strand, WC, 12.00
Victoria Carpet Hldgs, Green Street, Kidderminster, Worcs, 3.00
Wagon Industrial Hldgs, Plough and Harrow Hotel, Hagley Road, Birmingham, 11.00
Wolfman, St Ermins Hotel, Caxton Street, SW, 2.30
Worthington (A. J.), Portland Mills, Leek, Staffs, 11.00

BOARD MEETINGS—
Finals:
Central and Sheerwood
Isotron
Sigmex Intnl
Sirdar
Star Computer
Interims:
APV
Asscd British Ports
Aurora
BAT Inds
BICC
BTR
Blockleys
British Aerospace
Costain
DRG
Executex Clothes
Hartons
London Utd Invs
Nurdin and Peacock
Prudential
Systems Reliability
Tavener Rutledge

DIVIDEND & INTEREST PAYMENTS—
Agricultural Mortgage Corp 6½pcDb 1985-90 3¼pc
Alphameric 1.15p
Barnes Group 25cts
Boeing Co 30cts
Booth (John) 1p
Bullough 3.2p
Chevron Corp 60cts
Dun and Bradstreet 64cts
Exxon Corp 90cts
General Motors 125cts
Grace (W. R.) 70cts
Harris (Philip) 5.5p
Houston Inds 70cts
Latham (James) 9.25p
Lockheed Corp 25cts
Lowe (Robert H.) 0.5p
Mohil Corp 55cts
Multibanco Comermex Fltg Rate Sub Nts 1992 $202.85
Nedlibra Finance Gtd Fltg Rate Nts 1988 $190.07
RBC North American Fund Ptg Red Pf 5.6cts
Robertson R[illegible] 1.8p
Scott F[illegible]
[illegible] Corp 50cts
Texaco 7[illegible]
Treasury 5[illegible] 12 2¼pc
Warner-Lambert 39cts

THURSDAY SEPTEMBER 11

COMPANY MEETINGS—
Argyll Group, Savoy Hotel, Strand, WC, 12.00
Asprey, May Fair Hotel, Berkeley Street, W, 12.00
C.H. Industrials, Sheraton Park Tower, 101, Knightsbridge, SW, 11.00
Davy Corpn, Cavendish Conference Centre, 20, Duchess Street, W, 12.00
Group Investors, 125, High Holborn, WC, 10.00
Grovebell Group, Great Eastern Hotel, Liverpool Street, EC, 12.00
Hogg Robinson, Baltic Exchange, 14-20, St Mary Axe, EC, 12.15
Howden Group, 32S, Scotland Street, Glasgow, 12.00
Lewmar, Post House, Northney Road, Hayling Island, Hants, 10.30
Redland, Plaisterers Hall, 1, London Wall, EC, 12.15
Tops Ests, Garrard House, 31-45, Gresham Street, EC, 11.00

BOARD MEETINGS—
Finals:
Douglas (Robert M.)
Ests Prop Inv
Gen Mng Union Cpn
Haynes Publishing
London Shop Prop Tst
Media Tech Intnl
Stewart and Wight
Walker (Thomas)
Interims:
Accord Publications
Boase Massimi Pollitt
Bowater Inds
British Mohair
Burmah Oil
Caparo Inds
European Ferries
Hepworth Ceramic
Laidlaw
Laing (John)
Rowntree Mackintosh
Royal Dutch Pet
Shell Transport and Trdg
Tyne Tees TV

DIVIDEND & INTEREST PAYMENTS—
Bankers Trust New York Fltg Rate Sub Nts 2000 $182.08
Barrie Invs and Finance 0.3p
C.H. Industrials 1.8p
Chester Waterworks 4.2pc 2.1p. 3.15pc Pf 1.575p. 3.85pcPf 1983-88 1.925p
Electric and Gen Inv 2.65p
Fleming Technology Inv Tst 1.5p
Group Investors 3.2p
Hong Kong (Selangor) Rubber 125p
Laurence Scott 6¼pcDb 1985-90 3⅛pc
Prince of Wales Hotels 1p
Time Inc 25cts

FRIDAY SEPTEMBER 12

COMPANY MEETINGS—
Hampson Inds, Penns Hall Hotel, Penns Lane, Sutton Coldfield, Birmingham, 12.00
Kleen-E-Ze, Hanham, Bristol, 12.15
Mercantile House, 66, Cannon Street, EC, 12.00
Nordic Inv Tst, 8, Devonshire Square, EC, 12.30
Normans Group, Great Eastern Hotel, Liverpool Street, EC, 12.15
Radiant Metal Finishing, 68, Fairfield Road, Bow, E, 10.30
Siebe, Butchers' Hall, 87, Bartholomew Close, EC, 12.30

BOARD MEETINGS—
Finals:
Benchmark
Delta Hldgs
Pifco
Wood (S. W.)
Interims:
Bk Leumi (UK)
Bipel
Boustead
Huntleigh Technology
Lyle Shipping
Southampton IOW and SOE Royal Mail Steam Packet

DIVIDEND & INTEREST PAYMENTS—
Birmid Qualcast 1.25p
Bulgin (A. F.) 0.1p
Citicorp Overseas Finance Gtd Fltg Rate Nts 1944 $18.85
Elandsrand Gold Mining 58cts
Graig Shipping 10p. A 10p
Grovebell Group 0.1p
Lewmar 1.54p
Meldrum Inv Tst 2.2p
Monsanto 65cts
Nedlibra Finance Gtd Fltg Rate Nts 1993 $1,884.72
Rights and Issues Inv Tst 1.1p
Saga Holidays 1.8p
South African Land and Expl 7.30977p
Southvaal Hldgs 101.00776p
Stroud Riley Drummond 2p
Vaal Reefs Expl and Mining 239.22891p
Western Deep Levels 255cts

SATURDAY SEPTEMBER 13

DIVIDEND & INTEREST PAYMENTS—
Hydro-Quebec 12.7pcLn 2015 6⅜pc

WORLD STOCK MARKETS

AUSTRIA

1986 High	1986 Low	September 5	Price Sch
2,660	2,190	Credit'nst'lt pp	2,310
3,850	3,075	Goesser	3,375
16,000	12,850	Interunfall	13,700
21,750	16,800	Jungbunzlauer	19,750
2,475	1,950	Laenderbank	2,285
795	560	Perlmooser	630
211	150	Steyr Daimler	156
12,500	8,850	Veitscher Mag	10,350

BELGIUM/LUXEMBOURG

1986 High	1986 Low	September 5	Price Frs.
3,500	2,290	B.B.L.	3,490
15,500	9,600	Banq. Gen. Lux.	16,600
17,000	9,400	Banq. Int.A.Lux.	15,100
14,500	8,250	Bekaert	11,525
4,650	2,640	Ciment CBR	3,900
195	120	Cockerill	149
3,840	1,662	Delhaize	3,150
4,940	3,560	EBES	4,815
17,350	10,425	Electrobel	14,925
2,700	1,970	Fabrique Nat.	2,170
7,800	3,580	GB Inno BM	7,600
4,595	2,695	GBL (Brux)	3,450
6,800	4,310	Generale Bank	6,490
6,850	4,750	Gevaert	6,300
8,150	5,700	Hoboken	7,600
3,995	2,680	Intercom	3,950
18,000	10,100	Kredietbank	18,000
11,650	9,900	Pan Holding	11,350
9,500	6,050	Petrofina	9,500
29,000	17,200	Royale Belge	27,700
[illegible]	[illegible]	[illegible]	[illegible]

GERMANY

1986 High	1986 Low	September 5	Price Dm
360	265	AEG	321.5
2,575	1,190	Allianz Vers	2,530
331.8	259	BASF	287.4
350	262.5	Bayer	314
685	518	Bayer-Hypo	542
675	468	Bayer-Verein	580
593	468	BHF-Bank	540
645	475	BMW	529
348	232.5	Brown Boveri	331
377.5	268	Commerzbank	345
336	203	Cont'l Gummi	325
1,549.5	1,106	Daimler-Benz	1,326
534	357	Degussa	497
240	168	D'sche Babcock	209
920	725.7	Deutsche Bank	839.5
506	353.5	Dresdner Bank	450
345	257	Feld-Muehle	312
459	380	Henkel	444
1,300	710	Hochtief	1,200
327	240	Hoechst	280
201	142	Hoesch Werke	160
560	470	Holzmann (P)	579.8
245	165	Horten	233
660	425	Hussel	630
464	318	Karstadt	453
525	350	Kaufhof	518
395	197	KHD	304.9
125	69	Kloeckner	83
775	579	Linde	765
311.8	155	Lufthansa	188
247	179	MAN	220.5
[illegible]	[illegible]	[illegible]	[illegible]

AUSTRALIA

[illegible]

JAPAN

[illegible]

DENMARK

[illegible]

FRANCE

[illegible]

NETHERLANDS

[illegible]

SWEDEN

[illegible]

NORWAY

[illegible]

ITALY

[illegible]

SOUTH AFRICA

[illegible]

SINGAPORE

[illegible]

HONG KONG

[illegible]

SWITZERLAND

[illegible]

SPAIN

[illegible]

NOTES—Prices on this page are as quoted on the individual exchanges and are last traded prices. ‡ Dealings suspended. xd Ex dividend. xc Ex scrip issue. xr Ex rights. xa Ex all. * Price in Schillings.

CANADA

TORONTO

Closing prices September 5

[illegible]

MONTREAL

Closing prices September 5

[illegible]

OVER-THE-COUNTER

Nasdaq national market, closing prices September 5

Continued from Page 33

[illegible]

Indices

NEW YORK

DOW JONES	Sept. 5	Sept. 3	Sept. 2	Aug. 29	Aug. 28	1986 High	1986 Low	Since Cmp High	Since Cmp Low
◆Industrials	1899.75	1919.71	1881.33	1870.36	1898.34	1919.71 (4/9)	1502.29 (22/1)	1917.71 (4/9/86)	41.22 2/7/32
H'me Bnds.	91.49	91.59	91.56	91.85	91.72	91.94 (21/4)	85.75 (14/1)	—	—
Transport	777.50	790.13	769.5	759.89	772.13	855.84 (31/8)	686.97 (9/1)	855.84 31/8/86	12.32 8/7/32
Utilities	213.71	218.82	216.66	216.42	219.16	219.15 (20/8)	169.47 (22/1)	219.15 20/8/86	10.5 8/4/32

Day's High 1933.35 (1927.87) Low 1890.19 (1877.26)

STANDARD AND POOR'S	Sept. 5	Sept. 3	Sept. 2	Aug. 29	Aug. 28	1986 High	1986 Low	Since Cmp High	Since Cmp Low
Composite ‡	250.47	253.83	250.08	248.52	252.93	255.3 (27/8)	203.49 (22/1)	255.3 27/8/86	4.40 1/6/32
Industrials	277.21	280.04	275.5	273.35	278.14	282.24 (2/7)	224.88 (22/1)	282.24 (2/7/86)	3.62 21/6/32
Financials	29.53	30.19	29.95	29.78	30.37	31.13 (14/8)	25.19 (22/1)	31.13 14/8/86	8.64 1/10/74
N.Y.S.E. COMPOSITE	143.89	145.75	143.74	143.12	145.32	145.75 (4/9)	117.75 (22/1)	145.75 4/9/86	4.464 25/4/2
AMEX. MKT VALUE	274.90	277.02	273.42	274.4	273.85	285.19 (25/6)	240.30 (4/2)	285.19 25/6/86	29.12 9/12/74
NASDAQ OTC COMP.	378.36	381.03	378.88	380.14	383.85	411.16 (3/7)	323.01 (9/1)	411.16 3/7/86	54.87 3/10/74

DIVIDEND YIELDS	Aug. 22	Aug. 15	Aug. 8	Aug 1	year ago (approx)
Dow Industrial	3.59	3.55	3.80	3.82	4.66
	Aug. 20	Aug. 13	Aug. 6	July 30	
S and P Industrial	2.95	2.99	3.10	3.10	3.78
S and P Ind P/E ratio	18.34	18.11	17.48	17.22	11.90

TRADING ACTIVITY

Volume † (Millions)	Sept. 5	Sept. 4	Sept. 3
New York	180.62	189.90	158.11
Amex	11.33	11.21	9.31
O.T.C.	—	102.6	97.0

New York	Sept. 5	Sept. 4	Sept. 3
Issues Traded	1,996	2,003	2,012
Rises	522	1,275	827
Falls	1,151	417	795
Unchanged	322	311	390
New Highs	—	118	67
New Lows	—	10	13

	Sept. 5	Sept. 4	Sept. 3	Sept. 2	1986 High	1986 Low
AUSTRALIA						
All Ord. (1/1/80)	1228.5	1231.7	1220.0	1211.4	1247.8 (7/8)	1010.8 (2/1)
Metals & Mnls. (1/1/80)	560.0	562.1	564.3	557.1	682.0 (24/3)	481.1 (29/5)
AUSTRIA						
Creditbk Aktien (30/12/64)	248.33	241.2	240.23	246.15	266.64 (25/4)	226.58 (5/3)
BELGIUM						
Brussel SE (1/1/84)	3866.50	3840.35	3895.86	3877.21	3866.50 (5/9)	2768.91 (15/1)
DENMARK						
Copenhagen SE (3/1/83)	188.39	192.6	190.18	190.72	250.79 (10/4)	185.30 (5/9)
FRANCE						
CAC General (31/12/82)	411.40	411.5	408.7	410.9	412.5 (1/9)	287.8 (2/1)
Ind Tendance (31/12/82)	156.7	158.0	158.2	157.5	158.9 (22/8)	101.6 (2/1)
GERMANY						
FAZ Aktien (31/12/58)	781.56	693.44	688.82	707.98	753.89 (17/4)	583.92 (22/7)
Commerzbank (1/12/53)	2114.9	2086.5	2103.6	2130.3	2279.5 (17/4)	1782.4 (22/7)
HONG KONG						
Hang Seng Bank (31/7/64)	1966.53	1940.7	1944.99	1930.81	1966.53 (5/9)	1559.94 (15/5)
ITALY						
Banca Comm Ital. (1972)	781.56	611.67	615.72	610.89	806.29 (20/5)	464.67 (24/1)
JAPAN**						
Nikkei (16/5/49)	18775.08	18560.84	18505.46	18684.85	18936.2 (29/8)	12881.5 (21/1)
Tokyo SE New (4/1/68)	1542.0	1519.6	1515.88	1531.06	1583.35 (20/8)	1025.85 (21/1)
NETHERLANDS						
ANP.CBS General (1970)	301.0	300.1	297.9	297.3	301.8 (5/9)	246.4 (3/3)
ANP.CBS Indust (1970)	301.8	301.8	298.5	296.6	303.6 (19/8)	254.0 (3/3)
NORWAY						
Oslo SE (4/1/83)	—	380.56	377.86	376.91	402.81 (16/1)	351.61 (4/6)
SINGAPORE						
Straits Times (30/12/66)	844.65	854.26	841.02	851.05	853.18 (1/9)	565.54 (23/4)
SOUTH AFRICA						
JSE Gold (28/9/78)	—	1702.0	1809.0	1758.0	1809.0 (3/9)	1108.1 (21/4)
JSE Indust (28/9/78)	—	1556.0	1544.0	1525.0	1560.0 (5/8)	1018.3 (2/1)
SPAIN						
Madrid SE (30/12/85)	204.18	204.22	203.81	203.74	204.23 (4/9)	100.85 (3/1)
SWEDEN						
Jacobson & P (31/12/56)	2427.31	2390.7	2405.50	2438.79	2620.62 (12/6)	1728.57 (29/1)
SWITZERLAND						
SwissBankCpn (31/12/58)	577.4	571.3	567.8	564.0	625.5 (8/1)	487.2 (4/6)
WORLD						
M.S. Capital Intl. (1/1/70)	359.9	—	356.3	357.4	360.8 (1/9)	249.9 (23/1)

** Saturday August 30: Japan Nikkei 18787.4, TSE 1546.74.

Base value of all indices are 100 except Brussels SE—1,000, JSE Gold—255.7, JSE Industrial—264.3, and Australia, All Ordinary and Metals—500. NYSE All Common—50; Standard and Poors—10; and Toronto Composite and Metals—1,000. Toronto indices based 1975 and Montreal Portfolio 4/1/83. † Excluding bonds. ‡ 400 Industrials plus 40 Utilities, 40 Financials and 20 Transports. c Closed. u Unavailable.

CANADA

TORONTO	Sept. 5	Sep. 4	Sept. 3	Sept. 2	Aug. 29	1986 High	1986 Low
Metals & Minerals	2196.93	2188.49	2156.0	2094.57	2044.88	2442.86 (21/5)	1817.4 (5/8)
Composite	3107.5	3096.4	3058.2	3040.0	3028.9	3129.11 (18/4)	2754.8 (17/2)
MONTREAL Portfolio	1569.62	1561.38	1531.16	1512.87	1513.58	1625.38 (18/4)	1396.80 (22/1)

NEW YORK ACTIVE STOCKS

Friday	Stocks traded	Closing price	Change on day
IBM	2,620,500	140¾	+1
Occidental Pet	2,480,000	30	+½
Mobil	2,015,300	38½	−⅜
Fannie Mae	1,884,300	32⅝	−1⅞
USX	1,817,200	20⅝	—
Pepsico	1,789,500	28⅝	−1½
IE Indust	1,712,900	28⅜	−¾
Allied Str	1,690,900	58⅝	−1⅜
Walt Disney	1,591,500	40⅞	−1
Sears Roebuck	1,577,700	44⅞	+⅛

Closing prices, September 5

NEW YORK STOCK EXCHANGE COMPOSITE CLOSING PRICES

12 Month High	12 Month Low	Stock	Div.	Yld.	P/E	Sls 100s	High	Low	Close Quote	Ch'ge Prev. Close
26½	15¾	AAR s	.44	1.6	19	203	24¼	23¾	23⅞	−⅜
30	21¾	ADT	.92	3.9		199	24⅛	23¾	23¾	−⅛
33	11½	AFG s	.08	.3	17	187	31⅝	31¼	31¼	
25⅜	13¾	AGS			13	230	19	18½	18½	+¼
15	9⅞	AMCA			288	25	10½	10⅛	10½	+¼
60⅝	37½	AMR			14	4446	56¾	55⅜	55⅝	−⅞
12½	8½	APL			6	8	11⅛	11	11⅛	+¼
16¾	10	ARX	.72	6.0	11	23	11⅞	11¾	11¾	−⅛
40⅞	28¾	ASA	2a	5.2		2415	38¾	38⅜	38⅝	+[illegible]
18⅝	9¾	AVX		2.8		228	11⅞	11¼	11¼	−½
32	22⅝	AZP	2.72	9.0	9	1867	31¼	30	30¼	−1
55	28⅝	AbtLb s	.84	1.8	22	6861	46⅝	46⅜	46¾	−[illegible]
32	19⅝	AccoWd .56		2.0	18	214	28½	27¾	27¾	−⅜
14⅞	9	AcmeC .40		3.6		73	11½	10⅞	11	−⅜
9¾	7	AcmeE .32b		4.4	15	3	7⅜	7¼	7¼	
22⅝	17	AdaEx 1.90e		8.7		97	22⅛	21⅞	21⅞	−½
33⅜	18	AdmMI .40		1.4	13	23	28⅞	28⅜	28⅝	−¼
20⅝	11⅞	AdvSys.83t		5.2	15	151	16¼	15⅝	16	+⅛
32⅞	14⅝	AMD				7349	19⅞	19⅜	19¾	+½
12⅝	6⅝	Adobe n				82	7⅜	7¼	7⅜	−⅛
16⅝	13¾	Adob pf 1.84		12.		1	15½	15½	15½	+¼
20¼	15¼	Adob pf 2.40		13.		61	18¾	18⅝	18⅝	+⅛
18⅝	7⅜	Advest .12a		.9	10	397	14½	14	14	−¼
68¼	42¼	AetnLf 2.64		4.4	10	5972 61⅛		60	60⅛	−1[illegible]
57	51½	AetL pf4.69e		8.9		x101 52¾		51⅝	52¾	+⅜
28¼	9¾	Ahmnse .48		2.1	7	6367	23¼	21⅝	21¾	−2[illegible]
5¾	2½	Aileen			78	98	4	3⅞	3⅞	−⅛
41⅝	25¾	AirPrd s .80		2.3	64	4536	36⅞	35	35⅝	+⅛
27¾	16	AirbFrt .60		3.2	16	31	19⅛	18⅞	18⅞	−¼
2	⅜	AlMoan .60c				370	7-16	7-16	7-16	
29	25⅜	AlaP pf2.12e		8.0		68	26⅜	26⅜	26¼	+⅛
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

Continued on Page 33

NYSE COMPOSITE CLOSING PRICES

Continued from Page 32

12 Month High	Low	Stock	Div.	Yld.	P/E	Sls 100s	High	Low	Close Quote	Ch'ge Prev. Close
59⅝	34⅞	Salomn .64		1.4	11	5328	46⅛	44¼	44¼	−⅝
42½	24¾	SDieGs2.36		6.1	11	1392	40¼	38½	38¾	−1⅝
9¼	6⅞	SJuanB52e		6.0		810	8⅝	8½	8⅝	+¼
12⅝	10	SJuanR				1	10	10	10	−½
32¾	22⅝	SAnitR2.04		6.9	18	348	29⅝	29⅜	29½	−⅜
28⅞	16½	SFeEP n2.88		13.		201	22⅝	22⅛	22⅝	+¼
38⅝	26¼	SFeSoP 1		3.2	13	3091	31¼	30¾	31	
73⅜	41	SaraLe1.60		2.3	17	2113	69¼	68½	68⅝	−¼
41⅝	33⅝	SgtWel 1.48		3.9	16	25	38⅝	38	38	+¼
19	16	SaulRE .20		1.1	48	10	18⅞	18⅞	18⅞	
22¼	9⅝	SavEP s			13	937	22⅛	21¾	21⅞	−⅛
46	30⅝	SavE .34		2.9		2	u46¼	46¼	46¼	+¼
14½	11	SavE pf1.28		9.1		8	14	14	14	+⅛
7⅞	2⅝	Savin				453	2⅝	d	2	2¼ −⅜
12⅞	4	Savin pf				6	3⅞	d	3⅝	3⅝ −⅜
42⅞	23⅝	SCANA2.24		5.9	13	2109	39⅞	38	38¼	−1½
88	45	SchrPld.80		2.2	22	2445	82½	80¼	80¼	−2⅝
7½	5⅛	Trico .20		3.1	15	617	6½	6⅛	6½	+⅛
20	12½	Trinty .50		2.8	148	287	18	17⅝	17¾	−¼
511¼	42⅝	Trinova1.40		1.9	7	304	74½	73⅝	73⅝	+¼
121½	72	Trnsv pf4.75		4.3		5	110¼	110¼	110¼	+2¾
35½	13⅝	TriEng.10b		.5	15	600	20½	19⅝	19⅝	+⅜
28⅛	20¾	TriE pf 2		7.5		92	27	26⅝	26½	+⅜
65	37	TucsEP3.30		5.4	12	214	62⅝	61	61	−1⅛
22¾	6½	Tultex s .32		1.7	17	280	19¼	18⅝	18⅝	−⅛
37¾	17⅞	TycoL s .40		1.1	17	1288	35⅝	34⅝	35	+⅛
17¼	11¼	Tyler .40		3.3	15	88	12⅝	12	12	−⅜
		U U U								
64¾	45	UAL 1		1.8		1633	58⅝	56⅞	57	−1¼
24	13¼	UCCEL			22	395	u24¼	23½	24¼	+⅜
26¾	14⅞	UDC s 2		9.9	5	398	21⅛	20	20¼	−⅞
28¼	20	UGI 2.04		7.6		203	27⅛	26¾	26¾	−⅛
13⅜	9	UNCInc			13	348	11⅛	10¾	11	+⅛
17½	10½	WylieLb .32			25	32	29	13⅛	13	13
29¾	15	Wynns .80		2.7		76	22⅝	21⅞	21⅞	−⅜
		X Y Z								
72¼	45¾	Xerox 3		5.2	18	2033	57⅞	57	57¼	
58¼	53½	Xerox pf5.45		9.8		22	56¼	55¾	55¾	−¼
28¾	20⅝	XTRA .64		2.7		89	24	23½	23½	−¾
17⅝	13½	Yorkin n				254	17⅛	16⅝	16⅝	−⅜
39	28½	ZaleCp 1.40		3.9		37	36	35⅞	35⅞	−¼
9½	3¼	Zapata .03j				513	3⅝	3½	3⅝	
43⅞	23⅞	Zayre s .32		1.2	18	4477	28	27	27¼	−¾
29⅞	16¼	ZenithE				667	24	23¼	23⅝	−⅜
18¾	8	ZenLb s			25	1186	9⅞	9½	9⅝	+⅜
22⅝	14⅝	Zero s .20		1.8	16	526	16½	16¼	16⅜	
45¾	32¾	Zurnin 1.32		3.6	13	112	36	36½	36½	−1½

[illegible]

Sales figures are unofficial. Yearly highs and lows reflect the previous 52 weeks plus the current week, but not the latest trading day. Where a split or stock dividend amounting to 25 per cent or more has been paid, the year's high-low range and dividend are shown for the new stock only. Unless otherwise noted, rates of dividends are annual disbursements based on the latest declaration.

a-dividend also extra(s). b-annual rate of dividend plus stock dividend. c-liquidating dividend. cld-called. d-new yearly low. e-dividend declared or paid in preceding 12 months. g-dividend in Canadian funds, subject to 15% non-residence tax. i-dividend declared after split-up or stock dividend. j-dividend paid this year, omitted, deferred, or no action taken at latest dividend meeting. k-dividend declared or paid this year, an accumulative issue with dividends in arrears. n-new issue in the past 52 weeks. The high-low range begins with the start of trading. nd-next day delivery. P/E-price-earnings ratio. r-dividend declared or paid in preceding 12 months, plus stock dividend. s-stock split. Dividends begin with date of split. sls – sales. t-dividend paid in stock in preceding 12 months, estimated cash value on ex-dividend or ex-distribution date. u-new yearly high. v-trading halted. vi-in bankruptcy or receivership or being reorganised under the Bankruptcy Act, or securities assumed by such companies. wd-distributed. wi-when issued. ww-with warrants. x-ex-divident or ex-rights. xdis-ex-distribution. xw-without warrants. y-ex-dividend and sales in-full. yld-yield. z-sales in full.

AMEX COMPOSITE CLOSING PRICES

Closing prices, September 5

[illegible]

OVER-THE-COUNTER

Nasdaq national market, closing prices September 5

[illegible]

Continued on Page 31

CURRENCIES, MONEY and CAPITAL MARKETS

FOREIGN EXCHANGES

A more hazardous course

BY COLIN MILLHAM

THE DOLLAR has moved downwards steadily for about a year, and the economic problems of the US suggest the trend has not yet run its course. But there are signs that the assumption the dollar will continue to fall is becoming a little more hazardous.

A record US trade deficit of $18.04bn in July failed to have any strong impact, even though Japan and West Germany posted record surpluses in the same month. Dealers are beginning to question whether a further devaluation of the dollar against the yen and D-mark is the answer to the problem.

Canada is the US's main trading partner, and the Canadian dollar is virtually unchanged against its US counterpart so far this year. Other currencies, such as the South Korean won and Taiwan dollar have shown relatively small upward adjustments against the US dollar. The US also trades on a large scale with South America, where very weak economies mean that local currencies have declined against the dollar.

Over the same period the dollar has fallen by about 16.5 per cent against the D-mark and by some 22.5 per cent in terms of the yen.

Mr Kiichi Miyazawa, Japanese Finance Minister, visited Washington for talks with Mr James Baker, US Treasury Secretary, at the weekend. There was no substance in rumours that Mr Gerhard Stoltenberg, West German Finance Minister, would be involved, or that there would be a meeting of the Group of Five, involving ministers from Britain and France, but towards the end of the week the dollar was supported by speculation about cuts in Japanese and West German interest rates.

The West German Bundesbank council will next consider a change in its credit policy on Thursday.

Not only was the dollar supported by speculation about lower interest rates in West Germany and Japan, but also by suggestions that the downward trend in world inflation could be at an end, preventing a further fall in the US discount rate.

A possible warning on inflation was provided by firmer oil prices and by demand for precious metals. Gold rose $35¼ on the week to $420½, the highest level since August 1983.

Fears about rising world inflation, coupled with nervousness about the health of the US banking system and increasing racial tension in South Africa, encouraged buying of gold. The metal was also boosted by demand for platinum, on speculation that South Africa will halt exports in retaliation against economic sanctions.

Sterling had a fairly comfortable week. It remained on the sidelines for much of the time, but tended to benefit from any improvement in the dollar. Firmer oil prices lent support to the pound, but the major factor behind sterling's better performance was the issue of a record $4bn 10-year floating rate note by the Bank of England, on behalf of the Treasury. This was very well received and was taken as an indication of the determination of the UK authorities to prevent a further weakening of the pound.

Sterling failed to hold above $1.50, but gained ¼ cent against the dollar, and was also not threatened with a fall below DM 3.00.

At the moment it appears the pound will remain above DM 3.00 at least as long as the dollar stays above DM 2.00, but any sudden renewed decline in the value of the US currency is likely to result in further strains on the UK reserves, unless the timing of the floating rate note proves remarkably astute, and the dollar's decline has virtually run its course.

£ IN NEW YORK

Sept. 5	Close	Prev. close
Spot	$1.4935-1.4945	$1.4995
1 month	0.52-0.50 pm	0.51-0.50 pm
3 months	1.52-1.49 pm	1.58-1.51 pm
12 months	5.25-5.15 pm	5.23-5.13 pm

Forward premiums and discounts apply to the US dollar

CURRENCY MOVEMENTS

Sept. 5	Bank of England Index	Morgan Guaranty Change %
Sterling	71.7	−21.0
U.S. Dollar	110.4	+2.1
Canadian Dollar	77.3	−12.9
Austrian Schilling	131.4	+8.2
Belgian Franc	96.8	−6.4
Danish Kroner	88.2	+0.1
Deutsche Mark	[illegible]	[illegible]
Swiss Franc	[illegible]	[illegible]
Guilder	[illegible]	[illegible]
French Franc	[illegible]	[illegible]
Lira	[illegible]	[illegible]
Yen	[illegible]	[illegible]

Morgan Guaranty changes: average 1980-1982=100. Bank of England Index (base average 1975=100).

OTHER CURRENCIES

Sept. 5	£	$
Arg'tina	1.5490-1.5545	1.0350-1.0380
Aus'alia	2.4240-2.4280	1.6215-1.6235
Brazil	20.600-20.730	13.770-13.840
Finland	7.3090-7.3300	4.8810-4.8830
Greece	199.60-203.10	132.70-134.90
H'kong	11.6825-11.6810	7.7985-7.8005
Iran	112.90*	75.40*

* selling rate

FT LONDON INTERBANK FIXING

(11.00 a.m. September 5)

Three months US dollars	
bid 5 ⅝	Offer 5 ¾

Six months US dollars	
bid 5 ⅝	Offer 5 ¾

The fixing rates are the arithmetic means, rounded to the nearest one-sixteenth, of the bid and offered rates for $10m quoted by the market to five reference banks at 11 am each working day. The banks are National Westminster Bank, Bank of Tokyo, Deutsche Bank, Banque Nationale de Paris and Morgan Guaranty Trust.

MONEY MARKETS

Picture may become clearer

INTEREST RATES had a slightly firmer undertone in London last week, although the immediate prospects appeared to be more uncertain than for some time. The London market drifted along quietly, with talk of refunds on petroleum revenue tax providing slight technical difficulties towards the latter part of the week. Dealers were reluctant to bid for funds or sell too many bills in case conditions suddenly became much more liquid than the daily forecast from the Bank of England suggested.

Although the prospects of lower rates were uncertain, the situation may become clearer this week. The Japanese Finance Minister has been to Washington for talks; the West German Bundesbank council meets on Thursday, amid speculation about a cut in its discount rate; and UK money supply and bank lending figures will be published tomorrow.

UK clearing bank base lending rate 10 per cent since May 22

Pressure has built up on the Bundesbank to cut interest rates, with Mr Jacques Chirac, the French Prime Minister, supporting recent calls from US officials for lower German rates. But the central bank council meets against a background of fears about rising inflation—although this is certainly not a problem in West Germany at present—strong German economic growth, and above target money supply growth. The money stock grew by 6.7 per cent in July, compared with the Bundesbank's target of 5.5 per cent. It would seem that if West German officials decide to cut the discount rate on Thursday it will be for political reasons rather than economic necessity.

LONDON MONEY RATES

September 5	Over night	7 days notice	Month	Three Months	Six Months	One Year
Interbank	5-10¼	10-10¼	10-10⅛	9⅞-10	9$\frac{11}{16}$-9$\frac{13}{16}$	9$\frac{11}{16}$-9$\frac{13}{16}$
Sterling CDs	—	—	10-10⅛	9⅝-9¾	9½-9⅝	9$\frac{7}{16}$-9$\frac{9}{16}$
Local Authority Depos	10-10$\frac{1}{16}$	10-10$\frac{1}{16}$	10$\frac{1}{16}$	9⅞	9⅝-9$\frac{11}{16}$	9⅝
Local Authority Bonds	—	—	10⅜	10¼	10	9¾
Discount Mkt. Depos	6-10	9¾-10	9¾	9½	—	—
Company Depos	8¾-10	10¼	10$\frac{1}{16}$	10	9$\frac{13}{16}$	9$\frac{13}{16}$
Finance House Depos	—	—	10⅛	10	9$\frac{15}{16}$	9⅞
Treasury Bills (Buy)	—	—	9$\frac{27}{32}$	9½	—	—
Bank Bills (Buy)	—	—	9$\frac{15}{16}$	9$\frac{7}{8}$	9$\frac{3}{4}$	—
Fine Trade Bills (Buy)	—	—	10$\frac{3}{16}$	10$\frac{1}{16}$	9$\frac{15}{16}$	—
Dollar CDs	—	—	5.90-5.95	5.75-5.80	5.70-5.75	5.90-5.95
SDR Linked Depos	—	—	5$\frac{15}{16}$-6$\frac{1}{16}$	5$\frac{15}{16}$-6$\frac{1}{16}$	5¾-6	5$\frac{13}{16}$-6$\frac{1}{16}$
ECU Depos	—	—	7⅜-7⅝	7⅛-7¼	6⅞-7	6⅞-7

Treasury Bills (sell): one month 9$\frac{23}{32}$ per cent; three months 9⅜ per cent. Bank Bills (sell): one month 9$\frac{27}{32}$ per cent; three months 9$\frac{23}{32}$ per cent. Treasury Bills: Average tender rate at discount 9.4444 per cent. ECGD Fixed Finance Scheme IV reference date August 6 to September 2 (inclusive): 9.890 per cent. Local Authority and Finance Houses seven days' notice, others seven days fixed. Finance Houses Base Rate 10 per cent from September 1 1986. Bank Deposit Rates for sums at seven days' notice 4.35-4.375 per cent. Certificates of Tax Deposit (Series 6): Deposit £100,000 and over held under one month 10 per cent; one-three months 9¾ per cent; three-six months 9½ per cent; six-nine months 9½ per cent; nine-12 months 9½ per cent. Under £100,000 9¾ per cent from August 21. Deposits held under Series 5 9½ per cent. Deposits withdrawn for cash 5½ per cent.